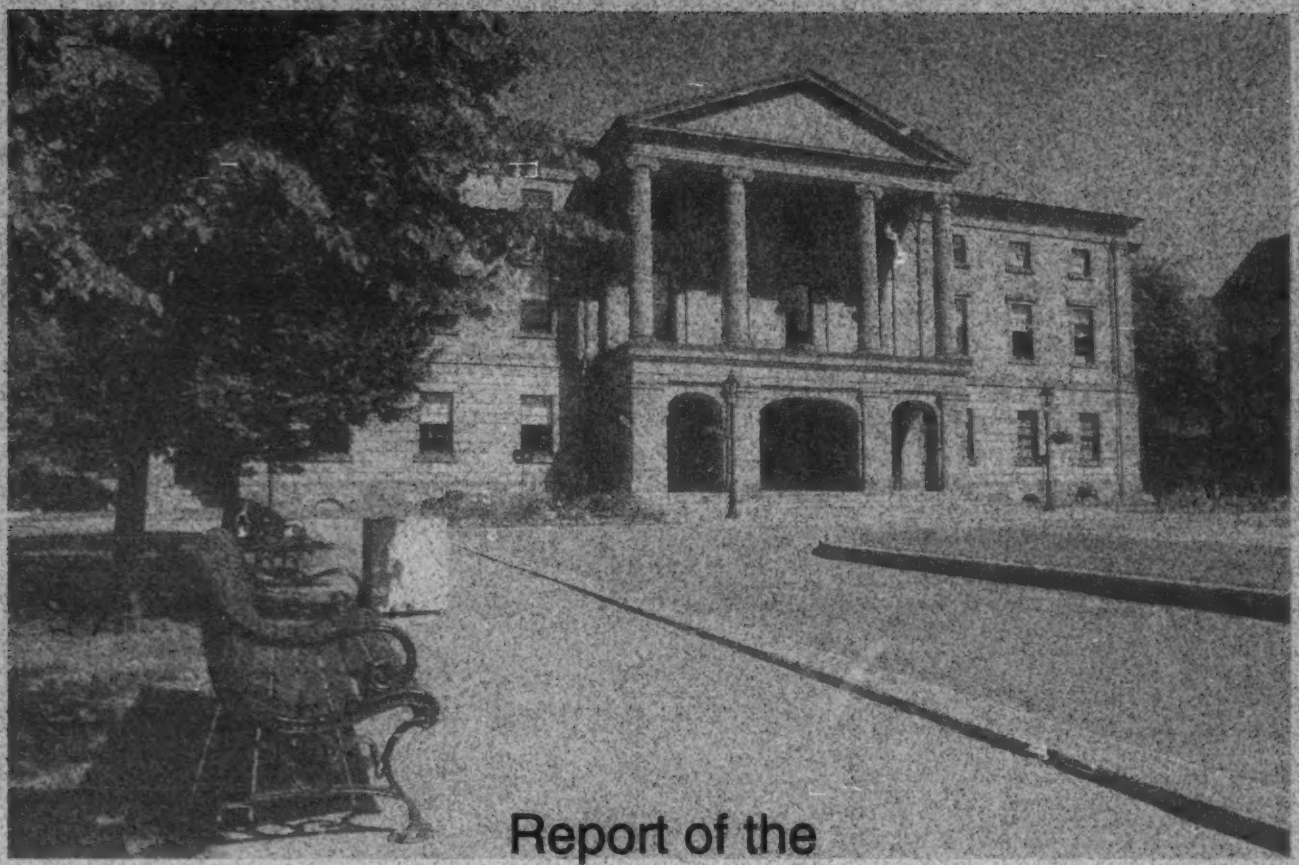

Report of the
AUDITOR GENERAL
to the
Legislative Assembly

2008

Prince Edward Island

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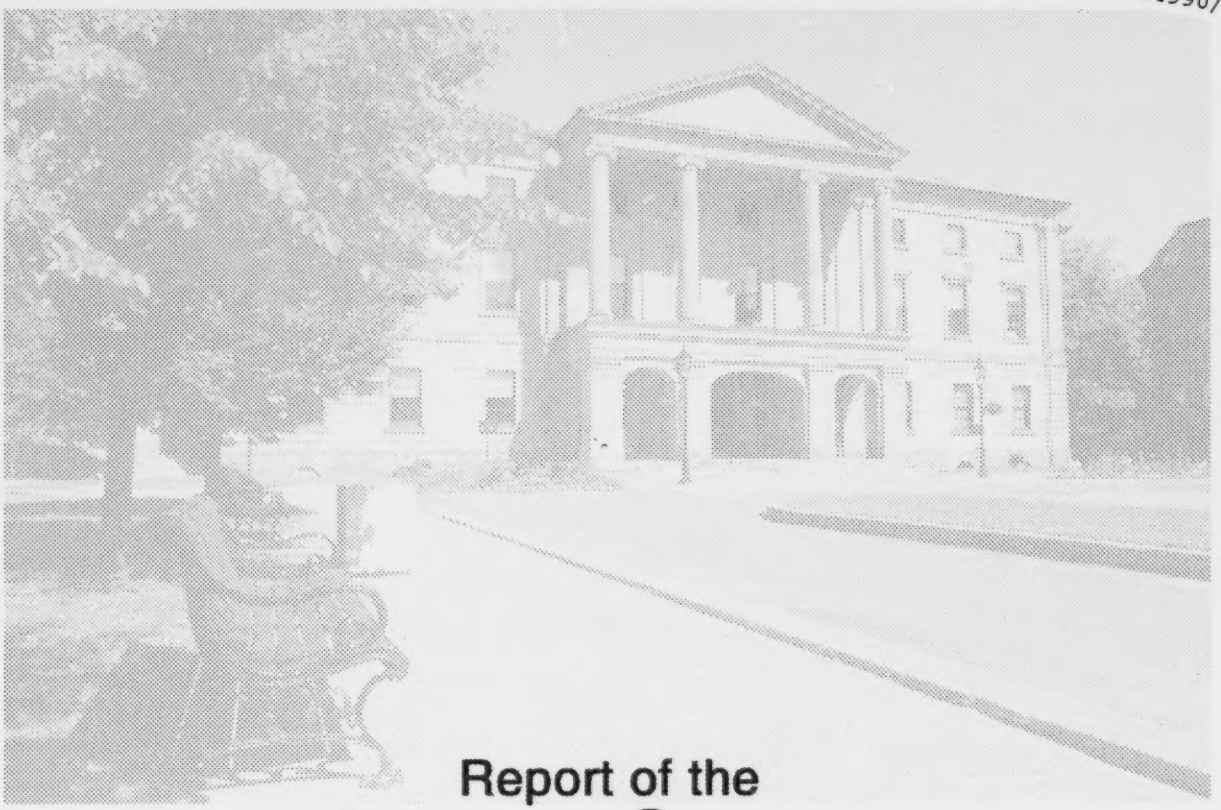

Report of the
AUDITOR GENERAL
to the
Legislative Assembly

2008

Prince Edward Island

Prince Edward Island
Office of the
Auditor General
PO Box 2000, Charlottetown PE
Canada C1A 7N8

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vérificateur général
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The Honourable Speaker and
Members of the Legislative Assembly
of the Province of Prince Edward Island

In accordance with the requirements of the Audit Act, I have the honour of presenting my Annual Report to the Legislative Assembly.

Respectfully submitted,

Colin Younker, CA
Auditor General

Charlottetown
Prince Edward Island
March 10, 2008

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INTRODUCTION

REPORT OVERVIEW

The Auditor General is required, under the Audit Act, to report annually to the Legislative Assembly. This, my 2008 Annual Report, provides observations, recommendations, and information pertaining to the audits and examinations of government operations conducted by the Office during the year. The purpose of this report is to assist the Legislative Assembly in carrying out its responsibility to hold the government accountable for the management of public resources.

This Annual Report deals mainly with matters pertaining to the 2006-2007 fiscal year, however, many of the issues identified remain current and are still being addressed by government.

It is not possible to audit all government programs and entities each year, however, the Office strives to provide reasonable audit coverage on a cyclical basis. A large portion of the audit work is determined by statutory requirements which name the Auditor General as auditor. These requirements include the annual audit of the Public Accounts of the Province. The remainder of our resources are devoted to special audits and examinations.

This report includes information and discussion on the **Province's Finances**. The section on **Special Audits and Examinations** includes the results of various examinations conducted during the year. Our Office was requested by the Public Accounts Committee to conduct an audit of the Small Claims Court Process. Our report was provided to the Committee in March 2008, and it has been reproduced in this Annual Report. In addition, this Annual Report summarizes the results of the following audits: Acquisition and Maintenance of Medical Equipment, Management and Use of Diagnostic Imaging Equipment, and Travel-Government Departments. The **Financial Statement Audits** section provides information on significant issues arising from the financial statement audits and other audit procedures conducted by the Office.

As a result of our work, we provide recommendations to departments and agencies to improve the management and administration of government operations and programs. Each year we contact departments and agencies to obtain follow-up information on the status of any outstanding recommendations from previous years. This information is included in a separate section of the report entitled **Update on Previous Recommendations.**

The **Standing Committee on Public Accounts** reviews the Auditor General's Annual Report and plays an important role in holding government accountable for the management of public resources. Information on the role of this Committee, and its proceedings during the past year, is provided in a separate section of the report.

During the past year, I appeared before the Standing Committee on Fisheries, Intergovernmental Affairs and Transportation on three occasions. The Committee has been directed by the Legislative Assembly to conduct a review of the collapse of Polar Foods.

The section on the **Office of the Auditor General** provides information on the mission and mandate of the Office as well as the responsibilities of the Auditor General. Background information is provided on the objectives and accomplishments of the Office and the resources used to achieve them.

ACKNOWLEDGEMENTS

Cooperation of Ministers, Deputy Ministers, heads of Crown agencies and their staff is important. To carry out our work, it is imperative that we receive the necessary information, reports and explanations. I wish to acknowledge that my Office received cooperation in the completion of the audits covered in my Annual Report.

The preparation of this report as well as the statutory audits conducted by the Office is the result of the support and dedication of my staff. I would like to thank them for the professional manner in which they conduct themselves and perform their work. The continued success of the Office is dependent upon their effort and commitment.

INTRODUCTION

APERÇU DU RAPPORT

Le vérificateur général doit, en application de la loi intitulée *Audit Act*, déposer un rapport devant l'Assemblée législative tous les ans. Le présent rapport annuel de 2008 fournit les observations, recommandations et renseignements liés à la vérification et à l'examen des activités gouvernementales effectués par le Bureau du vérificateur général pendant l'exercice financier 2006-2007. Ce rapport vise à aider l'Assemblée législative à veiller à ce que le gouvernement rende des comptes aux contribuables quant à sa gestion des fonds publics.

Le présent rapport annuel traite principalement de questions propres à cet exercice, bien que de nombreuses questions soulevées demeurent d'actualité et doivent être traitées par le gouvernement.

Il n'est pas possible de vérifier l'ensemble des programmes et organismes gouvernementaux chaque année, quoique le Bureau du vérificateur général s'efforce de fournir une vérification raisonnable et cyclique de ceux-ci. Une partie importante du travail de vérification est établie par des exigences réglementaires, en vertu desquelles le vérificateur général est nommé. Ces exigences comprennent la vérification annuelle des comptes publics du gouvernement provincial. Le reste des ressources du Bureau sont consacrées aux vérifications et examens spéciaux.

Le présent rapport comprend des renseignements sur les **finances du gouvernement provincial** et une analyse de celles-ci. La section portant sur les **vérifications et examens spéciaux** comprend les résultats de divers examens effectués en cours d'exercice. Le Comité des comptes publics a demandé au bureau de mener une vérification du processus de la cour des petites créances. Nous avons soumis notre rapport au comité en mars 2008, et il a été reproduit dans le présent rapport annuel. De plus, le présent rapport résume les résultats des vérifications suivantes : l'acquisition et la maintenance d'équipement médical; la gestion et l'usage d'appareils d'imagerie diagnostique; et les déplacements – ministères du gouvernement. La section consacrée à la **vérification des états financiers** contient quant à elle des renseignements sur des questions importantes

soulevées dans le cadre de la vérification de divers états financiers et d'autres procédés de vérification menés par le Bureau.

Par suite de notre travail, nous offrons des recommandations aux ministères et organismes afin d'apporter des améliorations à la gestion des opérations et des programmes gouvernementaux. Chaque année, le Bureau communique avec les ministères et organismes gouvernementaux afin d'obtenir des renseignements de suivi sur l'état de toute recommandation des exercices précédents restée en suspens. Ces renseignements sont inclus dans une section distincte du rapport intitulée **Mise à jour sur les recommandations précédentes**.

Le **Comité permanent des comptes publics** étudie le rapport annuel déposé par le vérificateur général et joue un rôle majeur dans le processus en vertu duquel le gouvernement est tenu de rendre des comptes quant à sa gestion des fonds publics. Des renseignements sur le rôle de ce comité et sur ses réunions au cours du dernier exercice sont fournis dans une section distincte du rapport.

Au cours de la dernière année, je me suis présenté devant le Comité permanent des Pêches, des Affaires intergouvernementales et du Transport à trois occasions. De plus, l'Assemblée législative a ordonné le comité de mener une étude sur l'effondrement de Polar Foods.

La section sur le **Bureau du vérificateur général** fournit des renseignements sur la mission et le mandat du Bureau, de même que sur les responsabilités du vérificateur général. On y trouve aussi des renseignements généraux quant aux objectifs et réalisations du Bureau, de même qu'aux ressources utilisées pour y parvenir.

REMERCIEMENTS

La collaboration des ministres, des sous-ministres, des dirigeants des sociétés d'État et de leur personnel est importante. Pour que le vérificateur général puisse effectuer son travail, il est primordial qu'il reçoive les renseignements, les rapports et les explications nécessaires. Je souhaite souligner la collaboration générale de ces

personnes avec mon bureau dans le cadre des vérifications présentées dans le présent rapport annuel.

La préparation du présent rapport, ainsi que les vérifications légales menées par le Bureau sont le résultat du soutien et du dévouement des membres du personnel. Je souhaite leur exprimer toute ma reconnaissance pour le professionnalisme de leur conduite et de leur travail. Le succès continu du Bureau repose sur leurs efforts et leur engagement.

1. THE PROVINCE'S FINANCES

OVERALL COMMENTS

1.1 Each year we comment on the Province's finances. The financial position of the Province for the most recent fiscal year is discussed and comparisons are made with prior years. This information is important because it indicates where we are financially. The Consolidated Financial Statements are the primary source of information to assess the financial condition of the Province.

1.2 For 2006-07, the Province recorded a surplus of $23.9 million which is a significant increase from the $.7 million surplus in 2005-06 and a turnaround from the deficits of $33.6 million and $125.1 million in 2004-05 and 2003-04.

1.3 As a result, the net debt has returned to slightly below the 2004 level and stands at $1.3 billion at March 31, 2007. During the same period, the GDP of the Province has grown by 12.3 percent. However, the Province's net debt is still significant.

BACKGROUND

1.4 The Public Accounts record the Government's financial activities in accordance with the recommendations of the Canadian Institute of Chartered Accountants. The statements combine the financial activities of many diverse Government programs and entities with expenses of approximately $1.2 billion.

1.5 As in previous years, we are providing information to help put the numbers into perspective. The presentation is made in a format that focuses on key information to assist the Legislature and the public in obtaining a better understanding of the Province's financial condition. The Province's finances have a significant impact on the Provincial economy.

1.6 This discussion of the Province's finances is based on the Consolidated Financial Statements, which include departments, Crown corporations, school boards, and other organizations which are part of the overall Government reporting entity.

FINANCIAL MEASURES

1.7 Some of the common terms used to describe the Province's financial condition are presented below.

1.8 The **annual surplus or deficit** is the difference between a government's revenue and expense. This measure shows the extent to which revenues raised in the year were sufficient to cover expenses in that year. For the year ended March 31, 2007 the Province had a surplus of $23.9 million.

1.9 The **total debt** is the amount owed by the Government. Government's debt includes outstanding debentures, pension obligations, and other accounts payable. The total debt of the Province as of March 31, 2007 was $2 billion.

1.10 **Financial assets** are cash and other assets which could provide resources to pay liabilities or finance future operations. Total financial assets at March 31, 2007 were $713 million.

1.11 The **net debt** is equal to the difference between the Government's total liabilities and its financial assets. The net debt of the Province as of March 31, 2007 was $1.3 billion.

1.12 **Non-financial assets** include tangible capital assets such as buildings, roads, and equipment as well as prepaid expenses and inventories. The book value of tangible capital assets increases as they are acquired and is reduced over a period of time through amortization. At March 31, 2007 non-financial assets had a book value of $560.2 million.

1.13 The **accumulated deficit** represents the Province's liabilities net of the assets the Province has acquired, both financial and non-financial. It is calculated based on the surpluses and deficits incurred over the years. The accumulated deficit at March 31, 2007 was $751.4 million.

1.14 The **interest charged on borrowings** is the amount required to service the debt and must be taken from revenues before any expenditures can be made on Government programs.

1.15 The **gross domestic product (GDP)** is a measure of the value of the goods and services produced in the Province in a year. The Province's GDP is measured and reported by Statistics Canada.

1.16 **Exhibit 1.1** shows a summary of some key financial measures for the Province over the past four years.

EXHIBIT 1.1
PROVINCE OF PRINCE EDWARD ISLAND
SUMMARY OF FINANCIAL INFORMATION
(Millions)

	2007	2006	2005	2004
Surplus (Deficit)	$ 23.9	$ .7	$ (33.6)	$ (125.1)
Increase (decrease) in Net Debt	$ (11.3)	$ (6.6)	$ 16.9	$ 134.1
Net Debt	$1,311.6	$1,322.9	$1,329.5	$1,312.6
Non-Financial Assets	560.2	547.6	552.9	582.7
Accumulated Deficit	$ 751.4	$ 775.3	$ 776.6	$ 729.9
Debt Charges	$ 120.3	$ 116.8	$ 104.9	$ 106.5
GDP	$ 4,332	$ 4,142	$ 4,023	$ 3,858

Financial Highlights

1.17 **Exhibit 1.2** shows the change in the surplus from 2005-06 to 2006-07.

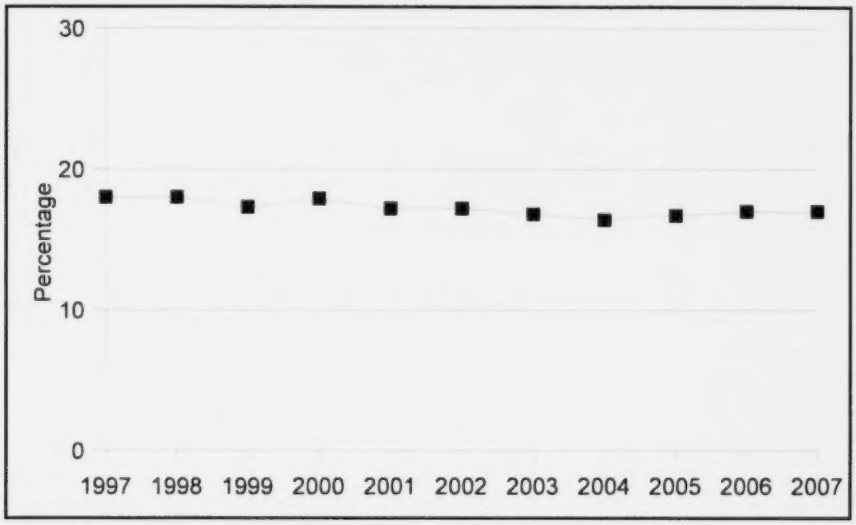
EXHIBIT 1.2
PROVINCE OF PRINCE EDWARD ISLAND
CHANGE IN SURPLUS
(Millions)

	Revenue	Expense	Surplus
2005/06 Surplus	$1,169.9	$1,169.2	$ .7
Increased Tax Revenue	26.3	-	-
Increased Federal Transfers	30.0	-	-
Decreased Government Business Entities	(1.2)	-	-
Increased other Government Revenue	5.5	-	-
Increased Development and Technology Expense	-	17.3	
Increased Health Expense	-	10.4	-
Increased Education Expense	-	8.5	-
Increased Other Expense	-	12.4	-
Increased Interest Expense	-	3.5	-
Decreased Public Service Expense	-	(14.7)	-
2006/07 Surplus	$1,230.5	$1,206.6	$ 23.9

1.18 The growth in revenue for 2006-07 resulted from an increase in both Provincial and Federal revenue. Provincial tax revenue increased by $26.3 million. Of this amount $17.6 million was the result of an increase in personal and corporate income tax. Federal revenue increased by $30 million. Equalization, which comprises 61 percent of federal revenue recorded, increased by $14.7 million while health and social transfers which comprise 28 percent of federal revenue increased by $8.8 million. The balance of federal revenues increased by approximately $6.5 million.

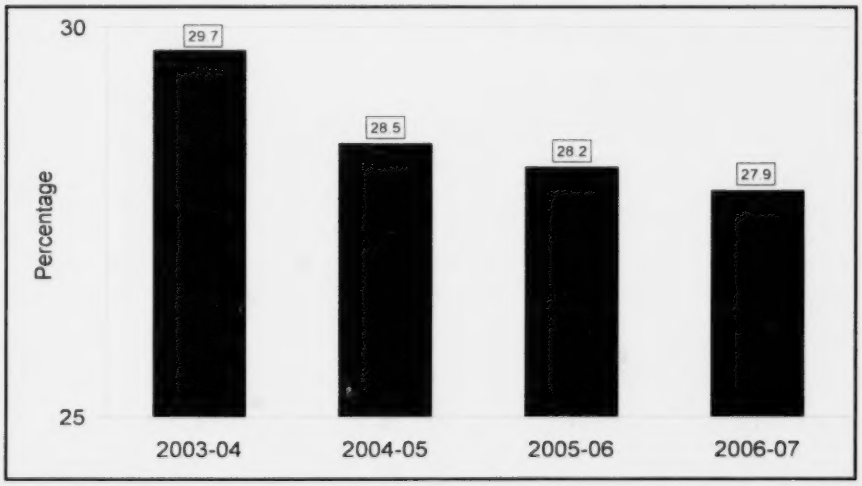
1.19 **Exhibit 1.3** shows the ratio of provincial revenue to GDP for the years 1997-2007. The trend between 1997 and 2004 was downward indicating that government was not increasing its own source revenue at the same rate as the growth in the Province's economy. In 2005 and 2006 there was a slight upward change in the trend, and it has remained relatively stable for 2007.

EXHIBIT 1.3
PROVINCIAL REVENUE AS A PERCENT OF GDP



1.20 Exhibit 1.4 shows that Government spending as a percentage of GDP decreased slightly in 2004-05 and has remained relatively constant for the past three years. This indicates that the growth in the economy was sufficient to maintain additional spending.

EXHIBIT 1.4
EXPENSES AS A PERCENT OF GDP

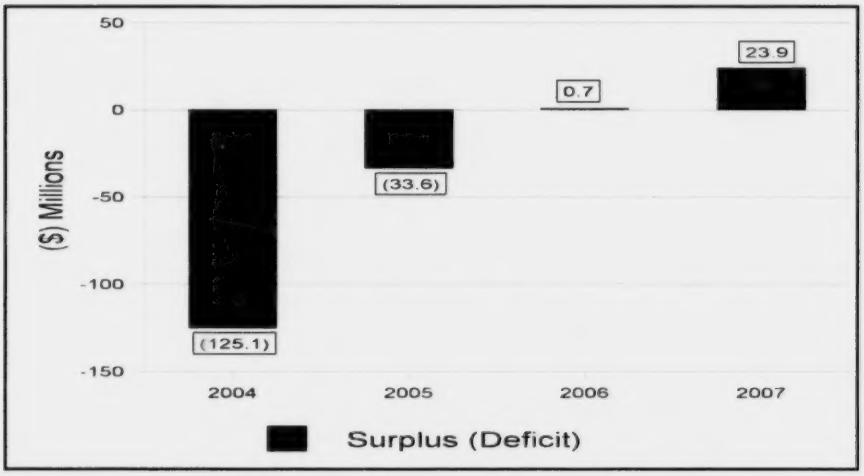


Sustainability

1.21 Sustainability indicates whether the Province can maintain programs and meet existing creditor requirements without increasing the debt burden on the economy. A comparison of the Government's annual surplus or deficit, net debt and the Provincial GDP provides insight into the sustainability of a government's practices of incurring expenditures and generating revenues.

1.22 The annual deficit or surplus indicates the extent to which a government spends more or less than what is raised in revenue in a particular year. It basically shows whether a government is living within its means. **Exhibit 1.5** shows the annual surplus (deficit) for the last four years. For these years the combined total is a deficit of $134.1 million. For 2006-07 the Government recorded a surplus.

EXHIBIT 1.5
THE GOVERNMENT'S SURPLUS (DEFICIT)
2004-2007

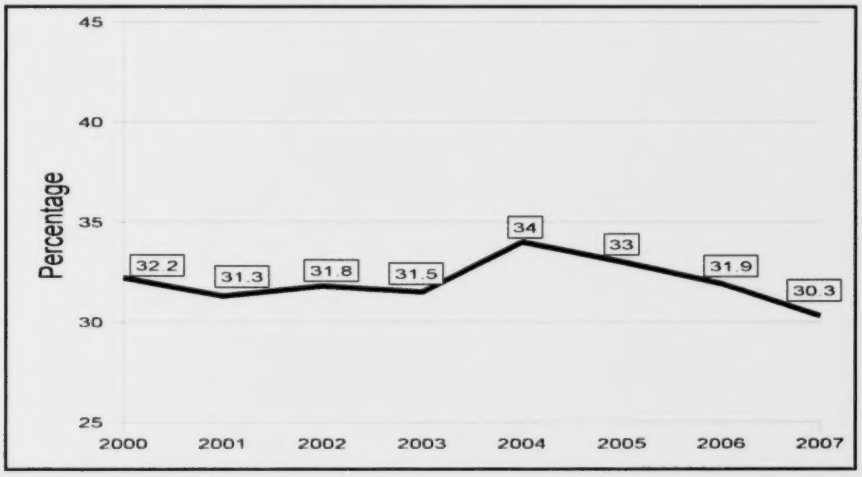


1.23 The net debt is the difference between Government's total liabilities and its financial assets. Since 2004 the net debt has decreased by $1 million totalling $1.3 billion at March 31, 2007.

1.24 The GDP of the Province indicates the size of our economy. The Province's economy supports Government operations through taxes and fees. While the net debt has decreased by a marginal amount since 2004, the GDP of the Province increased by 12.3 percent. This is a continuation of the trend from the 2005-06 year and the Province has increased capacity to maintain programs and services without increasing the debt burden.

1.25 **Exhibit 1.6** shows the net debt to GDP ratios since 2000. The 2003-04 deficit of $125.1 million caused the net debt to GDP ratio to increase significantly but with the lower deficit of $33.6 in 2005 and the surpluses in 2006 and 2007 the rates have fallen below the 2000 level.

EXHIBIT 1.6
NET DEBT AS A PERCENT OF GDP



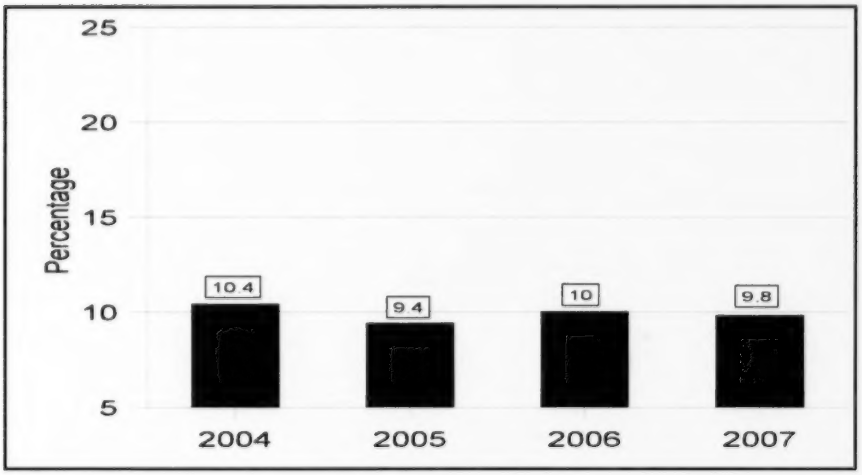
Flexibility

1.26 Government's flexibility is the degree to which it can increase its financial resources to respond to rising commitments by either expanding its revenues or increasing its debt. A government meets the test of flexibility when it can respond to changing economic conditions such as a recession or higher interest rates without making substantial changes to the way it operates.

1.27 A government's net debt and debt charges provide insight into whether it can respond to rising commitments without increasing its revenues. A rising debt burden and debt charges indicate there are fewer resources to allocate to programs and services.

1.28 One measure of a government's flexibility is the interest costs as a percentage of total revenues. This is sometimes referred to as the "interest bite." In 2006-07, debt charges on government borrowings were $120.3 million. The trend in the interest bite is shown in **Exhibit 1.7.**

EXHIBIT 1.7
INTEREST COSTS AS A PERCENT OF REVENUE



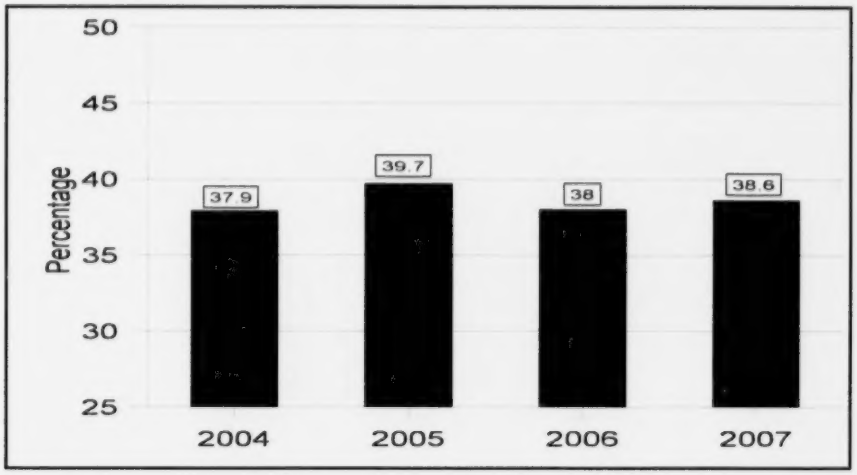
1.29 As indicated in **Exhibit 1.7**, the interest bite has not changed significantly from 2004. Our net debt is over a billion dollars and the first $120.3 million must be earmarked to pay interest costs and is unavailable for government programs. Recent debenture issues have been for 30 year terms at comparatively low interest rates.

Vulnerability

1.30 Vulnerability is the degree to which a government is dependent on, and therefore vulnerable to sources of funding outside its control or influence. In 2006-07, the federal government provided

approximately $474 million to the Province, an increase of $30 million from 2005-06. The trend in federal revenues relative to total revenues for the last four years is shown in **Exhibit 1.8.** This exhibit shows that approximately 38.6 cents of each dollar of revenue received by the Province in 2006-07 came from the federal government.

EXHIBIT 1.8
FEDERAL REVENUE AS A PERCENT OF TOTAL REVENUE



1.31 Revenue from provincial sources is more controllable through measures such as Provincial tax legislation or adjustments in user fees. Federal transfers are subject to different variables such as federal fiscal policies and the performance of other provincial economies. Any federal fiscal policy change impacts the Province.

SUMMARY

1.32 It is important for Members of the Legislative Assembly to have a regular update on the financial condition of Government. This section provides summary information using indicators recommended by the Canadian Institute of Chartered Accountants. The indicators provide useful insight into Government's ability to sustain its programs, the flexibility it has to respond to economic changes, and its vulnerability to sources of outside funding. The indicators help to

put the finances of Government into perspective and assist Members to understand and interpret the information.

1.33 Further to the above discussion, we recognize that there are other relevant non-financial matters which have to be taken into consideration by Members of the Legislative Assembly in making budgetary decisions and setting Government policy direction.

SPECIAL AUDITS AND EXAMINATIONS

2. INTRODUCTION TO SPECIAL AUDITS AND EXAMINATIONS

AUDIT PROCESS

2.1 Subsection 13(2) of the Audit Act states that the Auditor General may conduct any audit or examination considered necessary to determine whether any agency of government is achieving its purpose, is doing so economically and efficiently and is complying with the applicable statutory provisions.

2.2 Due to the size of our Office and the complexity and magnitude of government operations, we cannot audit all Government programs on an annual basis. There are numerous factors that influence the preparation of our annual audit program: the results of previous audits, the total revenues and expenditures at risk, the complexity of operations of the entity, the significance of potential issues that may be identified by an audit, and the impact of the program on the public.

2.3 Special audits and examinations are conducted in accordance with standards established by the Canadian Institute of Chartered Accountants. There are three distinct phases in these types of audits. In the planning stage, audit staff obtain a thorough knowledge of the auditee organization or program and the environment in which it operates. This knowledge is obtained from a variety of sources and is used to develop an audit plan which contains the purpose, objectives, scope, and timing of the audit. During the second, or implementation stage, the auditor performs tests and gathers sufficient appropriate audit evidence which is then evaluated and analyzed. In the third stage, a report is drafted which includes audit observations and recommendations. The auditee is provided with a copy of the draft report for discussion purposes. At the conclusion of the audit, a final report is issued to the department or agency and a written response is requested from management.

2.4 We provide the auditee with recommendations to address any problems identified. The authority and obligation to implement changes to deal with these problems remain with management. As auditors, our primary concern is that action is taken to address issues raised during the audit.

2.5 Under Section 16 of the Audit Act, the Auditor General is required to call attention to any matters which he considers necessary to be brought to the attention of the Legislative Assembly. My 2008 Annual Report provides information on the following special audits and examinations: Medical Equipment - Acquisition and Maintenance, Management and Use of Diagnostic Imaging Equipment, Travel-Government Departments, and the Small Claims Process.

3. MEDICAL EQUIPMENT - ACQUISITION AND MAINTENANCE

BACKGROUND

3.1 The delivery of quality health care affects all Islanders, and the acquisition and maintenance of medical equipment has an impact on the quality of medical care within the Province. The First Ministers' *10 Year Plan to Strengthen Health Care* was signed in September 2004 and builds on two previous agreements, the first of which dates back to 2000. The objective of these agreements is to improve access to quality health care for all Canadians, and the plans contained therein have encouraged all provincial governments to improve access to appropriate medical equipment and technology.

3.2 The health sector on PEI has been reorganized several times in recent years. These reorganizations have had an impact on both the administrative structure of the relevant health services organizations as well as the policies and processes related to the acquisition and maintenance of medical equipment.

3.3 Prior to 2002, there were five regional health authorities. Each of these regional authorities was administered by its own board of directors and was responsible for the delivery of health care in its respective jurisdiction. In 2002, the Health and Community Services Act was amended to establish the Provincial Health Services Authority (PHSA) which was given administrative responsibility for the Queen Elizabeth Hospital (QEH), the Prince County Hospital (PCH), and the Hillsborough Hospital (HH). In 2005, the PHSA and the regional health authorities were dissolved. The administration of the QEH, PCH, and HH now falls under the Department of Health (the Department), and the remaining Island hospitals operate as Community Hospitals under the Department of Health, each with its own board of directors.

3.4 Each acute care hospital in the Province has a hospital foundation which is a community-based organization established to raise funds to purchase medical equipment for the hospital in its community. The foundations have been successful in raising substantial funds for investment in medical equipment.

OBJECTIVE AND SCOPE

3.5 In accordance with Section 13 of the Audit Act, we conducted an examination to assess whether adequate policies and procedures are in place to ensure that medical equipment is acquired and maintained in a cost effective manner.

3.6 The audit focused on medical equipment purchases at the Queen Elizabeth and Prince County hospitals. We selected a sample of acquisitions at the QEH and PCH and assessed them for compliance with applicable legislation, policies, and trade agreements. In conducting our audit, we reviewed relevant files, policies and procedures, interviewed specific hospital and department staff, and reviewed numerous documents.

3.7 We performed our examination in accordance with the standards for assurance engagements encompassing value for money established by the Canadian Institute of Chartered Accountants and accordingly included such tests and other procedures as we considered necessary in the circumstances.

DETAILED AUDIT OBSERVATIONS

Capital Equipment Planning

3.8 When organizations are constrained by limited resources, sound strategic planning practices, including the existence of a systematic approach to identify and prioritize equipment needs, are vital to ensuring value for money. Properly applied, these practices should result in the acquisition of the most appropriate technology for patient care, ensure the operating safety of the equipment, and limit the need for emergency purchases.

3.9 In recent years the Federal government has transferred over $31 million to the Province under various funds for medical equipment as well as wait time reduction initiatives, which typically include a medical equipment component. The funds are summarized in **Exhibit 3.1**.

EXHIBIT 3.1
FEDERAL REVENUE
($Millions)

Trust Name	Revenue Recorded by the Province					Deferred Revenue March 31, 2007	Total Received
	To March 31, 2003	2003-04	2004-05	2005-06	2006-07		
Medical Equipment Trust 2000	4.5						4.5
Diagnostic and Medical Equipment Trust 2003		2.2	0.3	3.2	0.9		6.6
Medical Equipment Wait Times Reduction Fund 2005					2.2		2.2
Wait Times Reduction Transfer Trust 2005			2.7	2.7	5.1	7.7	18.2
Total	**4.5**	**2.2**	**3.0**	**5.9**	**8.2**	**7.7**	**31.5**

3.10 We were advised that the Federal funding is received at Provincial Treasury and allocated to the Department of Health. Of the $13.3 million received in the first three medical equipment funds, $6.3 million was allocated to the electronic health record project which was not covered under the scope of this audit.

3.11 **Exhibit 3.2** provides information on the equipment acquired by the health regions and the Department over the past four years. This includes non-medical as well as medical equipment. It also includes medical equipment purchases that were subsequently reimbursed by the hospital foundations.

EXHIBIT 3.2
EQUIPMENT ACQUISITIONS
HEALTH
($Millions)

	2003-04	2004-05	2005-06	2006-07	Total
Department of Health*	2.8		9.4	10.3	22.5
Health Regions **	19.1	3.8			22.9
					45.4

**Department uses threshold of $75,000*
*** Dissolved as of April 1, 2005*

3.12 We expected the hospitals to have an established process to identify and prioritize equipment needs over a multi-year period. We found that the long term planning process at the hospitals varied.

3.13 The Queen Elizabeth Hospital maintains a rolling multi-year equipment priority list. This is based on requests from and discussions with the manager of each department as well as medical staff within the hospital. The department managers consider the useful life and replacement needs for equipment within their department. The list is provided to the Medical Equipment Priorities Committee each year for information purposes.

3.14 We found there was no capital equipment subledger which provided information on the date purchased, cost, and useful life of major equipment. Although the QEH has documented a multi-year plan, this type of data would be a valuable input into ensuring all necessary equipment is identified and flagged for replacement at the appropriate time.

3.15 The PCH does not have a multi-year plan for the acquisition of medical equipment. The hospital was new in 2004, and at that time a significant portion of the medical equipment was new. At the time of our audit, a process was underway to develop a database of capital equipment including the purchase date and useful life of existing equipment which would serve as input into the development of a multi-year capital plan.

3.16 The majority of funds used for annual medical equipment purchases at QEH and PCH are received through donations raised by their respective hospital foundations. The Province provides funding on an ad hoc basis in response to specific initiatives. There is no ongoing capital budget for medical equipment in PEI. This lack of predictable funding has a significant impact on the effectiveness of capital planning.

3.17 The Queen Elizabeth Hospital is currently in the process of implementing a Redevelopment plan for the facility including upgrades for the emergency department, the cancer treatment centre, ambulatory care, and other hospital departments. As part of that process, equipment needs were identified, and in conjunction with other planned equipment priorities, a total of $18 million in new equipment was identified by the hospital. These needs were provided to the Queen Elizabeth Hospital Foundation which approached government for assistance. In April 2007, a significant commitment was made by government to the Queen Elizabeth Hospital Foundation to fund a portion of these medical equipment requirements over a three year period. This commitment did not go through government's capital budgeting process.

3.18 As multi-year capital plans are developed and updated by the QEH and the PCH, they should be combined with other medical equipment needs identified from other areas such as physician recruitment and community hospitals. This consolidation of the medical equipment needs of the two major hospitals, with any additional medical equipment needs identified, could then form a multi-year capital plan for medical equipment for the Department.

3.19 The hospital foundations could notify the Department on the level of funding which they can reasonably provide to the hospitals, and the Department could take appropriate measures to fund the shortfall through other means including Federal and Provincial sources.

Recommendations

3.20 In cooperation with Queen Elizabeth Hospital and Prince County Hospital, the Department of Health should develop a five-year medical equipment capital plan.

3.21 The Department of Health should use a medical equipment capital plan to support requests for funding through government's budgeting process.

Annual Medical Equipment Priorities

Queen Elizabeth Hospital

3.22 At the QEH, a request for equipment needs is sent to all hospital managers and medical heads of departments in February of each year. Equipment needs are identified and submitted in order of priority to the Medical Equipment Priorities Committee comprised of representatives of the medical and administrative staff. The role of this Committee is to review, prioritize, and recommend to the Medical Advisory Committee all purchases of medical equipment with a unit value greater than $1,000.

3.23 We expected that equipment requests submitted by hospital departments would incorporate some form of needs assessment so members of the Committee could make an informed decision when ranking requests. We identified several instances in our sample of acquisitions where no such needs assessment existed. This information is crucial for the prioritization of requests. We were told that the Director of Support Services meets with the departments to discuss their submissions, and as such, would have the relevant information necessary to convey to the Committee. We were also advised that a formal impact assessment is prepared primarily when the hospital seeks to introduce a new service that had not previously been provided, for example when magnetic resonance imaging (MRI) was introduced.

3.24 We expected that the prioritization exercise would be based on some criteria for ranking requests. A defined method to rank requests increases objectivity and assists in better decisions for the hospital as a whole. While many factors are considered and discussed with department managers and at the Committee level, these considerations are not always documented. It is not clear whether members of the Committee are aware of the factors which gave rise to the priority assigned to various pieces of equipment on the list. The Committee normally only meets once per year. We were advised that the Committee tries to ensure each hospital department has some equipment listed as a priority.

3.25 We expected that purchased equipment would be on the final priorities listing. When carrying out our testing on a sample of medical equipment purchases, we looked for each item to be identified as a priority in the year it was purchased. We found instances where medical equipment purchased was not on the priorities listing. For example, when the Request for Proposals (RFP) was issued for the CT Scan in 2004, three ultrasound machines were added to the specifications without prior approval of the Committee. In another example, the Committee approved the priority for a specific type of scope but at the physician's request, the hospital purchased a different piece of equipment for that department without going back to the Committee.

3.26 Each year at QEH the medical equipment priorities approved by the committee far exceed the anticipated annual funding by the Queen Elizabeth Hospital Foundation. The Foundation, in its annual campaign, raises approximately $1.5 million per year. The priorities beyond this annual cut off are to be reconsidered the following year.

3.27 The purchases of equipment are reimbursed by the Foundation based on the funds raised through its annual fund raising campaign. In 2005, the Province decided to pursue the development and implementation of an electronic health record system across the Province. The hospital foundations committed funding toward this major project over a number of years. In effect, this commitment reduces the annual funding the Foundation has available to support the medical equipment priorities established through the regular

Committee process. In an environment of scarce resources and unfulfilled medical equipment needs, this issue has been raised as a concern by the Medical Equipment Priorities Committee.

Prince County Hospital

3.28 At Prince County Hospital, the Materials Management Manager circulates a capital equipment request form annually to all hospital departments. The department manager and/or physician completes the request form, which is a standardized needs assessment form, and includes any relevant supporting documentation. The forms are submitted to the Capital Equipment Committee which reviews all requests over a period of three to five meetings.

3.29 The Committee scores the requests using a defined set of criteria which include the assessment of alternatives, reasons for replacement/purchase, and anticipated benefits. The entire list is ranked by score, and the prioritized equipment list is sent to the Medical Advisory Committee of the hospital for approval. Once approved, the list is sent to senior management.

3.30 The Prince County Hospital Foundation was a significant funding source for the fit up of the new facility which opened in 2004. At that time, the majority of the medical equipment was purchased. The annual medical equipment priorities since that time have been largely met through the annual fundraising campaign of the PCH Foundation which amounts to approximately $650,000.

Recommendations

3.31 To assist in ranking equipment priorities, the items on the Queen Elizabeth Hospital medical equipment priorities listing should be supported with a documented needs assessment.

3.32 Any changes to the approved medical equipment priorities lists should be re-submitted to the committee for approval.

Acquisition of Medical Equipment

3.33 Procurement of medical equipment is a complex process. To make matters more difficult, different laws, regulations, policies, and trade agreements were applicable to the hospitals' medical equipment purchases depending on when the purchases were made. If the acquisition was made prior to the hospitals coming under the direct authority of the Department of Health in April 2005, the purchases were subject to the Agreement on Internal Trade (AIT), the Atlantic Procurement Agreement (APA), and the hospitals' internal policies. If purchases were made after April 2005, then, in addition to the above mentioned agreements, they became subject to the tendering and approval requirements of the *Public Purchasing Act* and various Treasury Board policies.

3.34 The QEH has documented policies for tendering activities, but they have not been updated since the 1990s. Prince County Hospital has documented procedures for the annual equipment prioritization process, but no policies existed covering the tendering/purchasing of equipment. Neither hospital had any documented guidelines on evaluating bidders or on evaluating different acquisition opportunities such as leasing versus buying.

3.35 The various procurement agreements, legislation, and policies all speak to the importance of using an open, competitive process when acquiring goods. Each of these documents also provides allowances for sole-sourced purchases in specific circumstances.

Competitive Procurement

3.36 We found that a competitive process was used for the acquisition of most of the equipment purchases we examined. Where the equipment was sole-sourced, there were several cases where the circumstances met the criteria for exemption under the various procurement documents or there was a need to have standardized equipment for patient safety reasons. However, there were two cases in our sample where equipment was sole-sourced and further comment is required.

3.37 The QEH purchased a piece of lab equipment for $25,000 in 2004 from one vendor without seeking other bids. We were advised that this was an emergency situation because the existing unit had broken down. Based on the fact that the equipment was over 20 years old, well beyond its useful life, and not supported by the manufacturer, this need should have been foreseen. This emergency purchase could have been avoided. In another case the QEH sole-sourced the purchase of a $32,000 nerve monitoring system. We were advised that the equipment was purchased based on the request of the physician for that particular manufacturer. This does not meet the criteria for an exemption under the Agreement on Internal Trade.

3.38 We were advised that in situations where the equipment is life saving and is often used in crisis situations, the hospitals standardize the equipment and purchase from only one manufacturer to reduce the risk of error. A number of our sample items represented this type of equipment: defibrillators and anesthesia machines. We were also advised that compatability with existing equipment is another factor considered in the procurement process. There is no documented policy on standardization of medical equipment. The Public Purchasing Act Regulations allow for sole-sourcing in certain circumstances approved by the Deputy Minister.

3.39 When equipment is standardized with a particular vendor due to risk to the public, from time to time an RFP is issued to evaluate the continued relationship with the established vendor. In 2005, after an RFP and evaluation process, a decision was made for QEH to transfer all defibrillator purchases to a different vendor. This resulted in a defibrillator from the previous vendor, which was only three years old, being taken out of active operation. We noted this equipment, valued at $15,000, was on site at QEH for over a year after being taken out of service. The equipment could have been transferred for use at another hospital.

3.40 Where a competitive process was used, we expected the hospitals would have well documented evaluations of the bids to support the selection of the winning vendor. This documentation provides the basis for selection should an unsuccessful vendor seek information on the process. Also, it becomes valuable as a reference

when the equipment eventually needs replacing. We noted documentation on bid evaluations was not always maintained for purchases of equipment including an ambulatory monitoring system and a neonatal ventilator.

3.41 In one instance, an RFP was issued for a new ultrasound machine. The vendor with the highest quote was approached and subsequently provided a $25,000 donation to the hospital foundation, $20,000 in software upgrades for other machines at no charge, as well as, additional equipment valued at $7,600. These value adds were used to reduce the total bid and support the awarding of the RFP to this vendor. We were advised the other bidders did not have an equal opportunity to renegotiate their bid.

Recommendations

3.42 Policies should be developed and approved by the Department of Health regarding the circumstances required for standardization of medical equipment.

3.43 Medical equipment which is no longer used at one hospital but is still safe should be transferred to another hospital where it can be used.

3.44 The bid evaluation for major pieces of medical equipment should be well documented and maintained to support the vendor selection.

3.45 Procurement procedures should be fair and open to all bidders and, where applicable, should comply with the requirements of the Agreement on Internal Trade.

Lease versus Buy

3.46 The decision whether to lease or buy medical equipment involves many factors that must be considered when allocating scarce resources to medical equipment priorities. A lease arrangement will eliminate the necessary up-front capital requirement leaving dollars to be spent elsewhere. A lease arrangement will also reduce the risk of

being left with an obsolete piece of equipment where technology is rapidly changing. On the other hand, if technology is relatively stable, a purchase option may be the best choice over the long run. In general, lease versus buy should be considered when acquiring major capital equipment.

3.47 It was evident from our sample that the Laboratory often evaluates lease versus buy options when considering the acquisition of equipment. In addition to our sample items, we also reviewed the Laboratory's evaluation of a reagent purchase agreement - an agreement whereby the Laboratory would obtain a piece of equipment in exchange for purchasing consumables from the supplier for a given period, usually five to seven years. In the case reviewed, the decision to enter into the reagent contract was supported by the analysis that had been conducted.

3.48 When purchasing the MRI for the QEH, the impact analysis included an evaluation of a lease versus purchase option. The impact analysis determined that the option to lease the MRI was the most feasible option and recommended such as the means to acquire the unit. In the end, the MRI was purchased, and the QEH could not provide us with documentation supporting the decision to purchase rather than lease.

Recommendation

3.49 For major medical equipment purchases, where a lease option is available, any decision regarding lease versus buy should be supported with a documented analysis.

Approvals

3.50 Designated approvals for both the purchase and payment of goods and services are the cornerstone of internal controls over purchasing activities. The appropriate approval on a purchase order ensures that the details contained therein agree with the negotiated terms with the vendor. Appropriate approvals on invoice payments ensures that the purchaser is satisfied with the goods received and that the invoice amount is consistent with the agreed upon price. We

looked for evidence of proper approvals on purchase requisitions, purchase orders, and payment of invoices for medical equipment.

3.51 We noted deficiencies with documentation of approvals. We were provided with a list of individuals and the level of signing authority currently in use, however, the Department could not provide evidence that the persons had been delegated signing authority by the Deputy Minister. The signing authority listings were not appropriately authorized.

3.52 We noted that after April 1, 2005 when the two hospitals became part of the Department of Health, the hospitals' procurement activities, and specifically approvals, were to comply with the requirements of the *Public Purchasing Act* and the Treasury Board Policy on the Delegation of Signing Authorities. These documents include approval levels for the Deputy Minister, Minister and Treasury Board. Prior to this reorganization, QEH and PCH each carried out its purchasing process for both supplies as well as medical equipment. Since 2005, efforts have been made to centralize the purchasing process for the Department of Health which, at the time of our audit, included PCH, the manors, and other facilities under the Department with the exception of the QEH. To date some aspects of purchasing at the QEH have been centralized with the Department while others, such as medical equipment purchases, continue under the procedures in place prior to the reorganization.

3.53 We noted that the Director of Support Services at QEH has been delegated signing authority of $4 million for medical equipment purchases which are reimbursed through the QEH Hospital Foundation. We noted as well that the person responsible for centralized purchasing, including medical equipment purchased at PCH, is stated as having signing authority up to $250,000. The magnitude of both of these signing authority levels exceeds the limitations set in the Treasury Board Policy and the Public Purchasing Act Regulations. We noted that 11 of our sample items were purchased after April 1, 2005, and none had approval where required of the Deputy Minister or Treasury Board. Given the nature and magnitude of the purchasing of medical equipment for use in the hospitals, if management of the Department of Health believes

changes to the Public Purchasing Act Regulations and Treasury Board policy may be warranted, any changes should be approved by Executive Council or Treasury Board as applicable.

Recommendations

3.54 Delegation of signing authority should be supported with documented approval.

3.55 Purchase orders and payments should be approved by persons with appropriate signing authority.

3.56 The Department of Health should follow the Public Purchasing Act Regulations and Treasury Board Policy on the Delegation of Signing Authorities. Where changes are considered appropriate, the Department should seek approval of Executive Council or Treasury Board as applicable.

Repair and Maintenance of Medical Equipment

3.57 The maintenance of medical equipment is important for the safe and effective delivery of quality healthcare. Performing regularly scheduled preventative maintenance, carrying out repairs when necessary, as well as responding to emergency equipment failures are all important aspects in ensuring the medical equipment at the hospitals is functioning as it should.

3.58 The hospitals' medical equipment varies in terms of complexity. For less complex units, the biomedical technicians usually perform the preventative maintenance and general repairs. For the hospitals' more complex machines such as the MRI, the hospitals purchase service contracts whereby the vendor will perform all preventative maintenance and general repairs for an annual service fee. In other instances, the biomedical technicians have general training on the equipment in order to perform first response service and call on the manufacturer's technicians for any complex work, either under a service contract or on a fee for service basis.

Accurate and Complete Records

3.59 Part of having an effective maintenance program is knowing what equipment exists and where it is located. We expected the hospitals to have an accurate and complete database of all medical equipment including relevant data such as purchase date and expected useful life. This information is important for identifying equipment that is approaching the end of its useful life and may need to be replaced as well as for tracking repairs and maintenance on each piece of equipment.

3.60 Neither hospital could provide us with a complete and accurate listing of all medical equipment including cost, purchase date, and record of repairs. The QEH has a software system called Sentinel which is used as a maintenance database. We noted that the system did not include all major equipment. Three of the twenty-one items in our sample were not recorded in the system.

3.61 In addition, the system was incomplete in terms of the repairs and maintenance recorded for each piece of equipment. We observed that the system did not reflect all the work that was actually performed. We were advised by biomedical staff that although repairs and maintenance were carried out, the work orders are not always recorded in the system due to a lack of clerical support. At the time of our audit, a new maintenance software system had been ordered which was expected to improve the quality of the information and reduce the clerical support required.

3.62 At the PCH, the biomedical technician has both a computerized and a manual system. The computer system is essentially an inventory listing of medical equipment. We found that it was not complete as it did not include the CT Scan. The biomedical technician at PCH maintains a manual system to record all repairs and maintenance carried out on each piece of equipment. We were advised clerical support was not available to input the historical information into the database, and therefore the technician has continued to maintain manual records.

Recommendation

3.63 A complete database of medical equipment should be maintained at both the Queen Elizabeth Hospital and the Prince County Hospital.

Preventative Maintenance

3.64 Preventative maintenance is scheduled servicing for the purpose of maintaining equipment in good working order. This type of maintenance is usually carried out in accordance with manufacturer's recommendations, industry standards, or other recognized guidelines. The performance of preventative maintenance is very important to any repair and maintenance program as it helps ensure that medical equipment is operating as expected. We expected the hospitals' biomedical staff to have established policies on preventative maintenance including a preventative maintenance schedule for major medical equipment.

3.65 At the QEH, there were no written preventative maintenance policies. We were informed the general policy is that life saving and life supporting equipment receives preventative maintenance at least annually, while less important equipment is repaired upon failure only. Further, the Sentinel system does not identify when a particular piece of equipment is due for preventative maintenance. Rather, individual biomedical technicians maintain their own schedule on the equipment for which they are responsible to perform preventative maintenance. This lack of notification when equipment comes due could lead to required preventative maintenance being missed.

3.66 When work is carried out on particular pieces of equipment the work orders are not always recorded in the database. We carried out testing on a sample of equipment to see if the preventative maintenance required by the manufacturer was carried out during the period under review. Because the system does not include complete information it was difficult to determine in some cases if preventative maintenance was carried out as required. In fact, in two cases we confirmed with the equipment operator that the required annual preventative maintenance had not been performed, and in one of

these, no preventative maintenance had been carried out for three years.

3.67 At the PCH, there were no written preventative maintenance policies. A manual system is used to record maintenance performed and given the nature of a manual system, there is a risk that equipment will not be identified for scheduled preventative maintenance. Ideally, a system should be in place to flag upcoming preventative maintenance tasks based on a predetermined schedule. All of our sample items at the PCH received scheduled preventative maintenance during our testing period.

3.68 Reporting on maintenance activities is important for managing the performance of medical equipment as it quickly highlights trends or anomalies. For example, equipment that is experiencing frequent repair calls may need to be replaced or equipment that did not receive scheduled preventative maintenance could be easily identified. We found that neither hospital produces reports on its maintenance activities. In the case of the QEH, the data contained in the current software system is incomplete and thus the reports would be unreliable for analysis or decision making purposes. At the PCH, the system is largely a manual one, and as such, it is not possible to generate reports on a timely basis.

3.69 Many of the more complex pieces of medical equipment have a service contract with the manufacturer. These agreements typically require the manufacturer's service technician to carry out scheduled preventative maintenance as well as perform repairs within a set response time. These contracts can amount to significant cost on an annual basis. There were eight items in our sample with service contracts; three of these amounted to over $470,000 per year in service fees.

3.70 Service contracts for major pieces of equipment often include an uptime guarantee. These clauses guarantee that the unit will not be down longer than a certain period of time, usually quoted in percentages. If the guarantee is not met, the service contract is extended free of charge. We noted that with the exception of the Linear Accelerator, the downtime of other medical equipment is not

regularly monitored and recorded. As such, breaches to the uptime guarantees could go unnoticed.

Recommendations

3.71 The Queen Elizabeth Hospital and Prince County Hospital should have documented policies for preventative maintenance of medical equipment and a process in place to flag equipment when preventative maintenance is due.

3.72 Maintenance systems for medical equipment should record all repairs and preventative maintenance completed and should be used to provide periodic reports to senior management.

3.73 Planned and unplanned downtime for major medical equipment should be recorded to monitor whether operating performance uptime guarantees have been breached.

Biomedical Services

3.74 The biomedical section at QEH consists of five staff members while at the PCH there is only one staff member. Part of the difference is that QEH staff provides service not only to QEH but also to community hospitals, excluding Stewart Memorial. In addition, QEH biomedical staff provide service for certain types of non-medical equipment such as telecommunications and security equipment, and the QEH has more equipment that is generally older than equipment at the PCH. However, we were also advised that the general rule at QEH is to provide service in-house because it is more economical than purchasing service contracts from manufacturers. We were advised that PCH has increased the number and extent of service contracts due to the limitation in staffing. We did not carry out a complete analysis on the cost benefit of hiring biomedical staff compared to contracting for service coverage. However, such an analysis should be considered.

Recommendation

3.75 The Department of Health should re-examine biomedical services to determine the most cost effective method to manage the risks associated with the operation and maintenance of medical equipment.

MANAGEMENT RESPONSE

3.76 Our report was provided to the Department of Health and a written response will be provided.

4. MANAGEMENT AND USE OF DIAGNOSTIC IMAGING EQUIPMENT

BACKGROUND

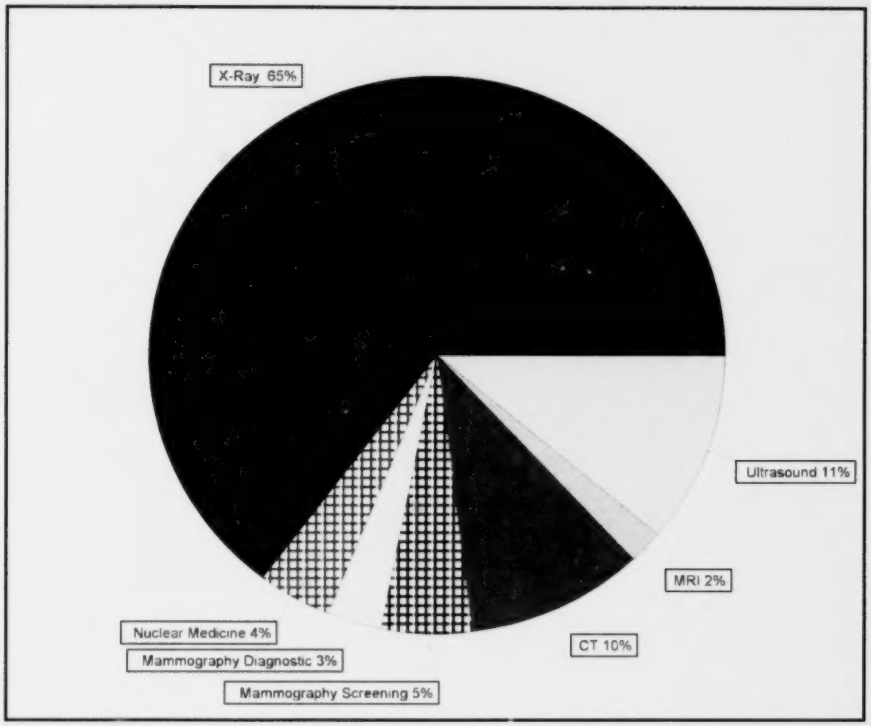
4.1 There are seven acute care public hospitals in Prince Edward Island, each delivering health care to Island citizens. The Health Sector on PEI has been reorganized several times in recent history. Prior to 2002, there were five regional health authorities. Each of these regional authorities was administered by its own board of directors and was responsible for the delivery of health care in its respective jurisdiction. In 2002, the Health and Community Services Act was amended to establish the Provincial Health Services Authority (PHSA) which was given administrative responsibility for the Queen Elizabeth Hospital (QEH), the Prince County Hospital (PCH), and the Hillsborough Hospital (HH). All other hospitals remained under the direction of their regional health authority. In 2005, the PHSA and the regional health authorities were dissolved. The administration of the QEH, PCH and HH now falls under the Department of Health (the Department), and the remaining Island hospitals operate as Community Hospitals under the Department of Health, each with a separate board of directors.

4.2 Although there are a number of locations where diagnostic tests are carried out, Diagnostic Imaging Services on Prince Edward Island has been organized on a Province wide basis since 2005. There is a Technical Director for the Province and all radiologists provide service to all facilities.

4.3 Diagnostic imaging includes x-ray, magnetic resonance imaging (MRI), computed tomography (CT), mammography, nuclear medicine including bone mineral densitometry, and ultrasound including echocardiograms. These tests provide physicians with important information used in diagnosing and monitoring patients' conditions.

4.4 There were approximately 125,000 diagnostic tests completed in Prince Edward Island in the 2006-07 fiscal year. **Exhibit 4.1** shows the breakdown of diagnostic imaging tests.

EXHIBIT 4.1
DIAGNOSTIC IMAGING TESTS IN PEI HOSPITALS
2006-07



4.5 Given time and resource constraints we could not audit all modalities. We focused on CT, MRI and ultrasound. The CT and MRI equipment can cost several million dollars, there are health and safety risks associated with these examinations, and the use of CT and MRI scanners has increased significantly in all provinces, and PEI is no exception. Although ultrasound testing is less costly, it is often an important first step in diagnostic testing.

4.6 The CT scanner, also known as computer assisted tomography (CAT) scanner, uses a series of x-rays to create images of slices of a patient's body. A computer then processes the data to create three-dimensional images of the structures in the body. MRI machines use a strong magnetic field and radio waves to generate images of areas inside the body. Ultrasound imaging uses high frequency sound waves to create an image of soft tissues and body cavities. These

diagnostic modalities have been greatly enhanced with the Picture Archiving and Communications Systems (PACS). This technology allows images to be transmitted electronically where they can be read and interpreted by a radiologist in another location. All hospitals in PEI have access to the PACS system.

OBJECTIVE AND SCOPE

4.7 In accordance with Section 13 of the Audit Act, we conducted an examination to assess whether policies and procedures were in place at Queen Elizabeth Hospital and Prince County Hospital to ensure that the management and use of certain diagnostic imaging equipment, specifically MRI, CT and ultrasound equipment, meets patient needs efficiently, and that test results are reported on a timely basis.

4.8 In conducting our audit, we reviewed administrative policies and procedures, examined relevant files, interviewed appropriate hospital and Ministry staff, and reviewed procedures and guidelines in place in other jurisdictions. We met with various personnel including the Chief Radiologist, the Technical Director of Diagnostic Imaging, the Medical Physicist, the Director of Medical Programs, and representatives of the PEI Medical Society. We selected a sample of tests completed for each of MRI, CT and ultrasound at QEH, and CT and ultrasound at PCH.

4.9 We performed our examination in accordance with the standards for assurance engagements encompassing value for money established by the Canadian Institute of Chartered Accountants and accordingly included such tests and other procedures as we considered necessary in the circumstances.

DETAILED AUDIT OBSERVATIONS

Access

4.10 Requests for diagnostic tests are received at the hospitals on requisition forms completed by physicians. These forms can be for an

inpatient referral, a referral from the emergency department of the hospital, or a referral for an outpatient to receive a test.

4.11 Requisitions received from outside the hospitals are stamped showing the date received. For each of CT and MRI, the requisitions received each day are reviewed by the radiologist who assigns a priority based on the clinical history provided on the form as well as the recommendation provided by the referring physician.

4.12 In prioritizing the requisitions, the radiologist reviews the clinical information and applies professional judgement to determine if the test requested is appropriate. In some cases referrals are returned to the referring physician for more information and sometimes other tests are recommended by the radiologist.

4.13 The Canadian Association of Radiologists has published Diagnostic Imaging Referral Guidelines. These guidelines are intended to help referring physicians decide on the appropriateness of a request for diagnostic imaging and lead to a reduction in the number of inappropriate referrals and therefore, a reduction in unnecessary medical radiation exposure. However, they are intended to be guidelines and not a rigid constraint on clinical practice. We were advised that these guidelines have been provided to referring physicians in Prince Edward Island.

4.14 After the requisitions are prioritized they are returned to the scheduling staff. Appointments are scheduled based on the priority level assigned by the radiologist. Diagnostic Imaging Services has a Radiography Information System (RIS) which is used for booking and scheduling exams.

4.15 In general, a number of appointments are reserved each day for emergencies and inpatients and the remainder are booked for priority 2 and priority 3 tests. We were advised that emergency and inpatient tests are carried out as required, and staff work overtime if necessary to ensure emergency CTs and MRIs are completed as required.

4.16 In the case of ultrasound tests, a similar booking process is in place. The prioritization of requisitions for booking purposes is carried out by the ultrasound sonographer rather than a radiologist. We were advised this practice is typical for ultrasound imaging. After prioritization, the ultrasound tests are booked in the RIS. In addition to emergency and inpatient referrals requiring special booking, obstetrical ultrasounds are required to be scheduled at 18-20 weeks of gestation.

Wait Times

4.17 In 2004, as part of the *10 Year Plan to Strengthen Health Care,* the First Ministers agreed to work toward a reduction in wait times in five priority areas including diagnostic imaging. In 2005, all provinces agreed to defined benchmarks for four of the five priority areas and targets for diagnostic imaging. Each Province agreed to develop a plan by 2007 on how they could achieve the targets. The PEI Steering Committee for Wait Time Reduction presented a Strategy to government in February 2007 which included access targets for the priority areas. These targets are to be achieved during 2007-08 to 2010-11. For diagnostic imaging, the Province committed to 90 percent of patients receiving service within the established targets.

4.18 We found the targets established for CT and MRI, which were agreed to within the strategy, are somewhat different from what the radiologists are using in practice as the targets for completion of tests at each medical acuity level. **Exhibit 4.2** compares the targeted wait time for each level from these sources.

EXHIBIT 4.2
WAIT TIME TARGETS
CT AND MRI

Provincial Strategy			Targets in Use		
	MRI	**CT**		**MRI**	**CT**
Urgent	within 24 hours	24 hours	Priority 1	24-48 hours	24-48 hours
Urgent 1	2 weeks	2 weeks	Priority 2	2-5 days	2-5 days
Urgent 2	4 weeks	4 weeks	Priority 3	8-16 weeks	8-16 weeks
Urgent 3	12 weeks	8 weeks			

4.19 While the purpose of both of these sets of targets is to promote improved service for patients, inconsistencies in the categories and time frames make it difficult to measure and assess performance against the targets and to report on achievement of results.

4.20 Under the *10 Year Plan to Strengthen Health Care*, all provinces agreed to report annually to their citizens on their progress in meeting wait time targets. In PEI, the Department of Health published wait times for the calendar year January to December 2006. In the case of diagnostic imaging, the median wait times published for routine CTs and MRIs were 8 weeks and 12 weeks respectively. We could not determine how this data was validated. We noted that the published wait times information is only updated annually. At the time of our audit, the Department of Health was in the process of updating the 2006 information with a completion date scheduled for April 1, 2008. This time lag impacts the usefulness of this information.

4.21 The wait time in weeks for each modality is determined on a monthly basis and reported internally to the management of Diagnostic Imaging Services. These reports indicate that as of December 1, 2007, routine CTs were being booked 12 weeks out, and routine MRIs were being booked 26 weeks out. This indicates that wait times for MRIs and CT scans have increased since 2006.

4.22 Ultrasound examinations were not included in the priority areas agreed to under the *10 Year Plan to Strengthen Health Care*. They were, however, included in our examination. There are no established targets within Canada for routine ultrasound wait times. However, diagnostic imaging staff provided information on average wait times in other provinces for routine ultrasound examinations. These wait times ranged from 2 weeks to 20 weeks. As of December 1, 2007, wait times for routine ultrasound on PEI were 52 weeks.

Limitations in Wait Time Reporting

4.23 The RIS system used in diagnostic imaging contains an extensive amount of information. However, there are currently limitations in its use for calculating wait times. Wait time is defined as the time from the date the physician and patient determine they are

ready to treat to the date of treatment. For diagnostic imaging, this has been interpreted as the date the referral is received by the hospital. When this referral is later recorded in the RIS and a test is scheduled, the date of booking is recorded in the system, and the received date on the referral form is not recorded.

4.24 For a sample of tests, we compared the date the referral was received at the hospital to the date the referral was entered in the RIS. We noted, in a number of cases, the date the test was entered into the system and the date the referral was received were significantly different. There were several referrals for CT exams that waited approximately 50 days from the date received until the date the referral was entered in the system. In our sample of routine ultrasound referrals, we noted three waited over 200 days to be entered into the system and have a test scheduled.

4.25 In addition to reporting concerns, there is a risk when holding referrals in a pending file that critical documentation may get misplaced. We were advised by staff at diagnostic imaging that for MRI and ultrasounds the scheduling staff have started recording these referrals in the system when received.

4.26 There is information included in the RIS that impacts its use for calculating wait times. Follow up diagnostic tests are often purposely scheduled for a future date. Even though a patient can receive the test at the requested time, and therefore has no wait time, the scheduled tests are included in the system and tend to make wait times appear longer. For this reason, staff at Diagnostic Imaging do not use the RIS to calculate wait times, and instead interview scheduling staff at the beginning of each month to determine the wait times at that point. Over time, this information can be used for trend analysis, however, it is difficult to validate this data.

4.27 As indicated, there is a risk of using the RIS data for wait times information because it does not currently reflect the delay between receipt of the referral and the recording of the referral in the system. In addition, scheduled follow up tests would skew the wait times reported. The system could be modified, however, to provide readily accessible information on wait times. When patients are booked in

advance for a follow up test at a specific date, these tests could be flagged in the RIS so they could be removed from the data for wait time analysis. This, in addition to recording the referrals when received, should enable the RIS to be used to provide wait time data.

Wait Time Testing

4.28 As previously noted, when each referral is received, it is assigned a priority by a radiologist, or in the case of ultrasound, by the sonographer. These priority assignments are based on the clinical information provided on the referral and the recommendation of the referring physician. Based on interviews with staff and our sample testing, in general, priority 1 CT examinations are being completed within 24 to 48 hours. We noted that in the case of priority 2 CT scans, our sample results indicate that the majority of these examinations were not completed within the wait time target for the Province which is 2 weeks. Most of the priority 3 CT scans in our sample testing were completed within 8 weeks, however, we have been advised that as of December 2007, priority 3 CTs at QEH are being booked 12 weeks out.

4.29 In the case of MRI, our sample results supported that in general, examinations at priority 1 and 2 levels are being completed within the wait time targets. For priority 3 MRI examinations, the majority of tests in our sample were not completed within the target of 12 weeks. Priority 3 MRI examinations were being booked for 26 weeks as of December 2007.

4.30 Based on our sample, not all ultrasound examinations that had been marked as urgent were completed within 48 hours. However, we question whether some of these exams were in fact urgent since we were advised that more physicians are indicating urgent on requisitions in order to obtain faster service for their patients due to extended wait times. Routine ultrasounds are facing significant wait times. At the time of our audit, PCH was no longer performing routine ultrasounds, and QEH was booking these exams 52 weeks out. We were advised that some family physicians are referring patients off Island to have routine ultrasounds. Obstetrical ultrasounds, which

must be conducted at a specific gestation time period, are now being completed on time, subsequent to a recently revised booking process.

Recommendations

4.31 The Department of Health in cooperation with Diagnostic Imaging Services should work to ensure that the definition of levels of priority and wait time targets are consistent.

4.32 Current information should be publicly available on wait times for CT and MRI scans.

4.33 Referrals for CT diagnostic testing should be recorded in the Radiography Information System when received.

4.34 The method for calculating and reporting wait times for diagnostic imaging should be improved. Wait times should be reported in accordance with the PEI Wait Time Strategy and should be substantiated with data from the Radiography Information System.

WCB Referrals

4.35 Individuals who are injured at work may need various tests performed by hospitals. Tests carried out for these patients are paid for by the Workers Compensation Board (WCB) directly to the hospital whereas for other patients, those not injured at work, the cost of the examinations conducted must be covered through the hospital's global budget.

4.36 We noted that a special arrangement was entered into to expedite MRI tests for WCB patients. This agreement commits the hospital to provide routine MRI tests within 4 weeks to patients referred by WCB. These tests are provided after normal working hours; however, the result is still that these patients receive access to MRI tests within a shorter wait time than most other routine patients. As of December 2007, routine MRI tests for non WCB patients were being booked with a 26 week wait time.

4.37 The PEI Wait Time Strategy states that hospital administrators and health providers are responsible to ensure patients are managed according to urgency and need and wait lists are administered based on priority.

Recommendation

4.38 In accordance with the PEI Wait Time Strategy, the Department of Health should ensure that all patients are scheduled for diagnostic imaging tests based on prioritized medical need.

Human Resource Issues

4.39 The complement of radiologists for Prince Edward Island has been set by the Department of Health at 8.5 and has not changed for many years. The current complement of radiologists practicing in PEI is 6.4. The recruitment of radiologists, similar to other physicians in PEI, is an ongoing process. Within the Radiology speciality, there are areas of expertise of individual physicians. For example, there are currently only three radiologists in PEI that read mammograms.

4.40 The shortage of radiologists has had a direct impact on the wait times that currently exist. Demographic analysis would indicate that as the bulk of the population is aging, the demand for diagnostic tests is expected to increase. Several radiologists on staff have been working extra hours reading routine CT and MRI scans in order to address the wait times. This is a temporary measure that would be difficult to sustain over the long run.

4.41 With the advanced technology that is currently available, it may be possible to transfer images through PACS to be interpreted by radiologists in another location external to PEI. This could be one option to consider on a temporary basis to clear up specific backlogs when they occur.

4.42 In the case of ultrasound examinations, there are extensive wait times. The primary constraint is a shortage of ultrasound sonographers. There are currently two ultrasound machines in PEI

which are sitting idle. We were advised there is a shortage of sonographers across North America. It is difficult for PEI to attract sonographers in a competitive market with wage differentials. Diagnostic Imaging Services has been proactive in considering various options to address this issue such as locums and training local medical radiation technologists. A request has been put forward to increase the number of full-time ultrasound sonographer positions.

4.43 We obtained the qualification requirements for all staff operating CT, MRI and ultrasound machines. We confirmed with the Human Resources Section of the Department of Health and the Technical Director of Diagnostic Imaging that these individuals had the required certification.

Recommendations

4.44 The Department of Health should increase efforts to recruit additional radiologists. The Department should examine other options to meet demand such as transferring diagnostic images to radiologists off Island.

4.45 Recruitment for ultrasound sonographers should be addressed to improve the wait times for ultrasound tests.

Examination Results

4.46 There are a number of steps required between the time a diagnostic imaging test is conducted to completion of the final report. The test is read and interpreted by the radiologist who dictates a report into a dictation system. At this point the referring physician can call in, using a password, and listen to the dictated report. The dictated report is transcribed by a clerk trained for this purpose. The transcribed report is returned to the radiologist who reviews and authorizes it. It is then sent out to the referring physician.

4.47 The time elapsed between the date the test is completed and the date the report is finalized is called the turnaround time. There is an expectation under medical practice that radiologists will complete reports on a timely basis. For example, urgent or priority 1 cases

should be completed within 24 to 48 hours. Delays in the reporting process can occur at various points including reading the tests, transcribing the report, and finalizing the report. In some cases, especially for emergency CT scans, there may be verbal reporting by the radiologist directly to the patient's physician even though the report is not finalized until later.

4.48 The quality control coordinator produces summary monthly reports which are provided to management of Diagnostic Imaging Services. One of these reports is the average turnaround time for radiologists reports in each modality at each facility. These turnaround times are calculated from information in the RIS.

4.49 The average turnaround time for CT exams as reported to management for October 2007 was 6.7 days at QEH and 6.5 days at PCH. We reviewed the turnaround times for a sample of 40 completed tests at different priority levels. We noted several long turnaround times. Two priority 1 CT scans in our sample took over 14 days from the date the test was completed to the date the radiologists report was finalized. For the priority 2 and priority 3 tests we examined, there were 3 that were more than 14 days.

4.50 We reviewed the turnaround times for ultrasound tests. We noted that the average turnaround times for October 2007 ultrasounds, as calculated from all tests in the RIS system, were 7.4 days at QEH and 6 days at PCH. From our sample of completed tests, we found 6 out of 20 tests at QEH and 9 out of 20 tests at PCH had turnaround times of more than 7 days. The longest was 29 days.

4.51 For the MRI, the average turnaround time for October 2007 for completed tests from the RIS system was 7.7 days. The majority of MRI tests in our sample had reasonable turnaround times.

4.52 As indicated, during our testing we noted several instances of long turnaround times. Because of this, we decided to carry out further work in this area. For each of CT, MRI and ultrasound we selected from the RIS the 10 tests at each hospital with the longest turnaround times during our period of review, which was April 1, 2006 to November 30, 2007. We followed up with staff on these tests and

were able to obtain reasonable explanations in most cases for MRI and ultrasound tests. However, there were 15 out of 20 CT tests where we were not provided with specific explanations. We noted, for example, that 6 of these tests had turnaround times of over 200 days. We were advised that there were problems with the dictation system interface and reports were not being moved into the queue for dictation. The result being that the tests were in the system but were not transcribed in order and were then overlooked. The quality control coordinator, who was hired in September 2007, reviews the RIS for outstanding tests that have not been reported. We found the incidence of these unusually long turnaround times has decreased since September 2007.

Recommendations

4.53 Targets for turnaround times for CT, MRI and ultrasound tests should be developed.

4.54 The quality control coordinator should ensure that turnaround times are monitored and unusual delays followed up.

Peer Review

4.55 The CT Accreditation Program of the American College of Radiology states that policies and procedures should be in place to review the diagnostic accuracy of radiologists' reports. While it is not practical to have every image analyzed by two radiologists, the review of a sample of a radiologist's reports is a useful quality assurance process.

4.56 We were advised that there is no formal peer review process in place at Diagnostic Imaging Services. However, radiologists do consult on complex cases and a review process is in place for new radiologists and locums.

Recommendation

4.57 Diagnostic Imaging Services should implement a quality assurance program that includes a peer review of a sample of each radiologist's analysis of diagnostic images.

Utilization

4.58 Given the large capital and operating expenditures associated with MRI and CT scanners, it is logical that the equipment be operated extended hours particularly when there is a backlog of tests. In PEI, tests are generally carried out from 8:00 a.m. to 4:00 p.m. five days a week. Radiologists and technologists are on call for emergencies as required. Information we obtained from Ontario indicated that on average, hospitals were operating MRI scanners 11 hours per day seven days a week and CT scanners 8.5 hours per day seven days a week.

4.59 Even with operating hours of 8:00 to 4:00 five days per week, CTs and MRIs are not fully utilized on all days. We were advised that due to medical practice issues, radiologists are reluctant to allow a large buildup of cases where tests are complete and waiting to be read. Therefore, the number of tests completed is controlled through the booking system. For example, if one radiologist is on vacation the number of tests completed during that time period is reduced.

4.60 We noted during our audit that QEH regularly performs nearly twice the number of CT scans per day as PCH. The wait times reported for priority 3 CTs at PCH continue to be substantially lower than QEH. In December 2007 wait times for priority 3 CT scans were 6 weeks at PCH and 12 weeks at QEH. Although the CT scanner at PCH is a 16 slice CT while the QEH has a 64 slice machine, we were advised by hospital staff that this is not a deciding factor in terms of booking CT tests.

Cancellations and No Shows

4.61 In order to ensure that diagnostic equipment is used efficiently and wait lists are minimized, it is important that the equipment is used

to its full potential during operating hours. When patients cancel appointments with little notice or fail to show up for appointments, there may not be an opportunity to reschedule that appointment slot and the equipment may be idle until the next appointment.

4.62 The cancellations and no shows are recorded in the scheduling system. Appointments may be cancelled for a number of reasons including a change in the patient's condition, equipment failure, or weather conditions. The reasons for cancellations are recorded in the scheduling system.

4.63 We were advised by diagnostic imaging staff that a certain number of cancellations and no shows are in the nature of the service. Patients are called the day before the test as a reminder. In the case of CTs, the cancellations are normally filled by an inpatient or emergency scan. In the case of MRI, this is more difficult due to the prescreening necessary before the test. **Exhibit 4.3** indicates the MRI and CT appointment cancellation and no-show rates.

EXHIBIT 4.3
APPOINTMENT CANCELLATION AND NO-SHOW RATES
APRIL 1, 2006 TO NOVEMBER 30, 2007

	Cancellation Rate (%) *			No-Show Rate (%)		
Hospital	MRI	CT	Ultrasound	MRI	CT	Ultrasound
QEH	15	9	14	5	2	5
PCH	-	8	17	-	1	3

Source: The Radiography Information System
** Includes No-Shows*

Downtime

4.64 We requested a report of planned and unplanned downtime for major diagnostic equipment. We were advised that although it could be recreated from service reports, it is not generally recorded. It is important to monitor equipment downtime particularly when there is a backlog of patients waiting for tests and utilization of equipment is closely controlled. In many cases preventative maintenance work is carried out during normal working hours. It is important, therefore to

understand the extent of downtime, the causes, and any impacts on patient wait times.

Recommendations

4.65 The Department of Health in cooperation with the hospitals should review the utilization of MRI and CT equipment.

4.66 Diagnostic Imaging Services should consider implementing a centralized booking process for the two CT scanners, at QEH and PCH.

4.67 Planned and unplanned downtime of major diagnostic equipment should be monitored and reported to senior management.

Safety

CT Safety

4.68 Diagnostic imaging tests that use radiation, including CT scans, are an accepted part of medical practice when they are justified in terms of clinical benefit to the patient which outweighs the potential harmful effect of the radiation exposure. Unlike regular X-rays, CT examinations produce a better quality image with higher radiation levels. Couple this with the fact that the availability of CT and the frequency of use is still rising, and the result is a higher overall radiation exposure. The Canadian Association of Radiologists (CAR) has stated that the doses from some CT examinations are particularly high and that CT now probably contributes almost half of the collective dose from all X-ray examinations. The CAR has noted that radiation exposure from CT, which is measured in millisieverts (mSv), is high as shown in **Exhibit 4.4**.

EXHIBIT 4.4
TYPICAL EFFECTIVE PATIENT RADIATION EXPOSURE FROM DIAGNOSTIC IMAGING PROCEDURES

Diagnostic Imaging Procedures	Typical Effective Dose (mSv)	Equivalent Number of Chest X-Rays	Approximate Equivalent Period of Natural Background Radiation
X-Ray - limbs and joints (except hip)	Less than 0.01	Less than 0.5	Less than 1.5 days
X-Ray - chest	0.02	1	3 days
X-Ray - skull	0.06	3	9 days
X-Ray - abdomen or pelvis	0.7	35	4 months
CT - head	2.0	100	10 months
CT - chest	8.0	400	3.6 years
CT - abdomen or pelvis	10.0	500	4.5 years

Source: CAR Diagnostic Imaging Referral Guidelines, 2005

4.69 There are specific reference dose levels established by Health Canada for X-ray but not for CT. However, reference dose levels for certain types of CT scans have been established in some other jurisdictions. For example, the American College of Radiologists (ACR) has established an accreditation program for CT facilities in the United States. This voluntary program requires facilities to submit a sample of images, radiation dose measurements, and scanning protocols to ACR every three years. ACR compares the radiation dose measurements to established reference levels as part of the accreditation process.

4.70 We attempted to review the radiation dose levels for each of our sample CT scans at the QEH. When a scan is completed the images and dosage report are saved temporarily in the scanner. The images are then transferred to the PACS system where they are examined and interpreted by a radiologist. Images are stored in the PACS system for an extended period. For our sample tests, we found that the radiation dose reports were not saved in PACS and were not available for review. When we followed up with staff, it was

determined that no dosage reports had been saved after May 9, 2006. At that date, software upgrades were installed in the CT scanner and the transfer of dosage reports to PACS was not reactivated. When we brought this issue to the attention of the medical physicist, adjustments were made to the scanner to reactivate the transfer of dosage reports. It is important that radiation dosage information is available to review and monitor the dosage levels of completed tests.

4.71 Using lower levels of radiation for children is particularly important because children exposed to radiation are at a greater risk of developing cancers as many radiation induced cancers can take decades to develop. The radiation dose level for children is reduced by the medical radiation technologist when a pediatric CT is carried out. While there are no standards in Canada for acceptable radiation dose levels for pediatric CTs, the Clinical Practice Parameters and Facility Standards for CTs in independent health facilities (College of Physicians and Surgeons of Ontario) and the practice guidelines (American College of Radiologists) for performing and interpreting diagnostic CTs both refer to utilizing pediatric/small adult protocols to help ensure image quality is attained with the lowest possible radiation exposure.

4.72 We reviewed radiation dose information for all pediatric CT scans conducted in November 2007 which were saved on the CT scanner at the time of our audit. We compared the effective dose to various reference level sources and discussed the information with staff at Diagnostic Imaging Services. There is currently no process in place to review pediatric radiation dose levels on an ongoing basis.

4.73 The incidence of multiple CT scans is not often noted on the referral form. We created a report from information in the RIS system of patients who received multiple CT scans during our period of review of April 1, 2006 to November 30, 2007. We found that 266 people had five or more scans during this period. This would not include CTs conducted outside of PEI. Information on the number of previous CT scans is valuable information in considering the appropriateness of a requisition for a CT. Multiple CTs may be warranted in the management of some diseases. However, the exposure to radiation

is always one consideration in determining the appropriateness of an additional CT scan.

4.74 We were advised that multiple CT scans are a concern for radiologists in PEI. For example, a forum was conducted among the clinical departments of urology, emergency, and diagnostic imaging on the management of patients with recurring kidney stones. The purpose was to avoid the excessive use of CTs and to examine alternate strategies. A protocol was established to reduce the effective dose level for each subsequent CT scan in these cases.

Recommendations

4.75 The Department of Health should make increased efforts to inform both physicians and patients on the radiation exposure from CT scans.

4.76 The radiation dose levels for pediatric patients should be reviewed and monitored to ensure the radiation exposure is as low as reasonably achievable.

4.77 A database should be maintained on individuals who have multiple CT scans. This information should include accumulated radiation exposure and should be accessible for consideration in clinical evaluations.

MRI Safety

4.78 MRIs use a strong magnetic field and radio frequency to produce images of soft tissues and organs inside the human body. This technology results in safety concerns for patients, medical radiation technologists, and any personnel who may enter the MRI room. It is important for key personnel to be trained in the effects of the MRI and be prepared before entering the area.

4.79 Patients who have materials in their body that may be attracted to a magnet such as metal fillings, clips or pins generally cannot be scanned. A detailed patient screening is required before undergoing

an MRI examination. We noted that written policies were in place at the QEH for MRI safety issues. The MRI coordinator has also provided training to fire and rescue personnel regarding how to handle emergency situations in the MRI areas.

Radiation Monitoring

4.80 The Public Health Act establishes limits for occupational radiation exposure to ensure that exposure to radiation by hospital personnel is at an acceptably low level. According to Health Canada, the annual recommended radiation limit for the whole body is 50 mSv. Dosimeters, designed to measure radiation are to be provided to radiation workers. These dosimeters are forwarded to Health Canda's National Dose Registry. The registry tracks the individual's radiation dose, the cumulative radiation for the year, and their lifetime radiation dose.

4.81 We noted that regular reports from the National Dose Registry were received for a representative sample of medical radiation technologists. All of these dosimeters readings were below the annual radiation exposure limits established by Health Canada.

Quality Assurance

4.82 Diagnostic Imaging Services has a medical physicist on staff who is responsible to help ensure the safe and effective operation of the Province's diagnostic imaging equipment. Part of the medical physicist's responsibilities includes performing quality assurance testing and radiation dosage testing to ensure that these machines are safely producing consistent, reliable results.

4.83 We were advised that there are no national standards for quality assurance programs for CT scans or MRIs. As such, we looked at the standards established by two other reputable sources: the American College of Radiology which provides accreditation services in the United States and the College of Physicians and Surgeons of Ontario which has established standards for CTs and MRIs operating in independent health facilities. These standards

include specific testing procedures to be performed by both technologists and medical physicists.

4.84 We noted that the Province's existing quality assurance program does not meet the standards developed by the above mentioned organizations. Although the medical radiation technologists perform some required tests each day, for example phantom scans, the medical physicist's involvement is limited in the case of the CTs and non-existent for the MRI. The ACR accreditation guidelines, for example, indicate that a medical physicist is to evaluate the performance of each CT unit at least annually including slice thickness, image quality and patient radiation dose examinations.

4.85 In the case of the MRI, we were told that the medical physicist was never provided the appropriate training to perform quality assurance testing on the MRI. We did, however, note that the impact assessment supporting the purchase of the MRI anticipated that a medical physicist would be involved in the quality control process for the MRI, and the financial assumptions contained in the feasibility analysis allocated costs for a medical physicist to receive up-front and ongoing training.

4.86 In the case of the CT scanners at both the QEH and PCH, we were advised that since there are no national standards for CTs, efforts have been focused on those modalities where standards do exist, namely the general X-ray machines. The medical physicist does quality assurance testing on the X-ray machines at both the two main hospitals and all five community hospitals.

Recommendation

4.87 Diagnostic Imaging Services should implement a quality assurance program for both the MRI and CT scanners.

MANAGEMENT RESPONSE

4.88 Our report was provided to the Department of Health and a written response will be provided.

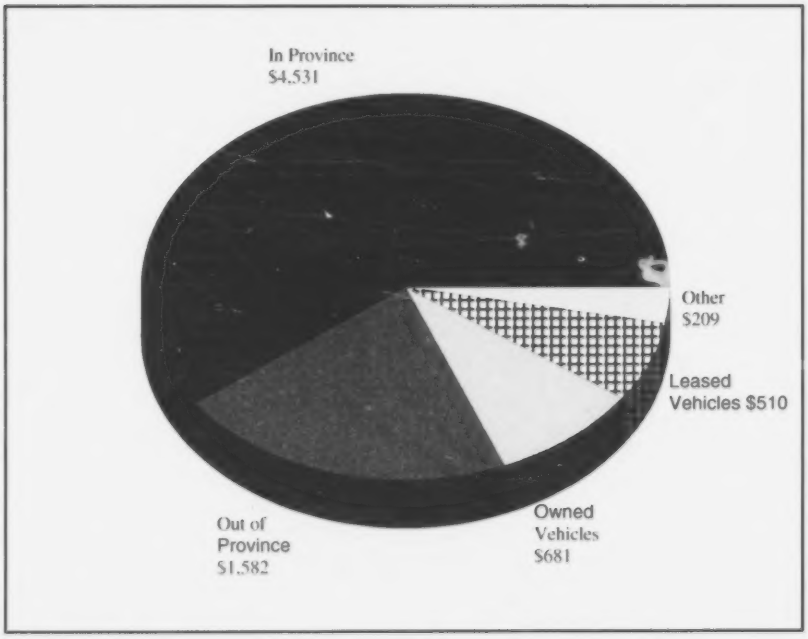
5. TRAVEL - GOVERNMENT DEPARTMENTS

BACKGROUND

5.1 Historically, travel costs have been a significant expenditure in the delivery of government programs. Travel expenditures encompass in-province travel, usually reimbursements to employees for the use of their personal vehicles; out-of-province travel; and vehicle fleet costs such as fuel, lease payments, and repairs and maintenance.

5.2 Travel and training costs for 2006-07 totaled $8.6 million. By comparison the total for 2005-06 was $8.2 million. Approximately $1.1 million of the $8.6 million relates to costs incurred for staff training which was not included as part of this audit. **Exhibit 5.1** provides a summary of travel costs for 2006-07.

EXHIBIT 5.1
TRAVEL COSTS
2006-07
($000)



5.3 Government vehicles are recorded as tangible capital assets. The net additions recorded for government light vehicles totaled $276,000 in 2006-07.

5.4 The Treasury Board Policy and Procedures Manual includes policies for employee travel on government business. Ministers or their delegated officers in cooperation with Treasury Board are responsible for administering travel policies. The UPSE Collective Agreement also includes articles which address travel.

OBJECTIVE AND SCOPE

5.5 In accordance with Section 13 of the Audit Act, we conducted an examination to determine compliance with Treasury Board policy on travel.

5.6 We interviewed departmental staff responsible for the management of travel and examined a sample of travel claims. We selected a sample of government light vehicles and checked for compliance with Treasury Board polices related to acquisition, assignment to employees, vehicle logs, fleet credit cards, and recording of vehicle information in the government Fleet Management System. We also reviewed the procedures for the approval and use of government procurement cards and selected a sample of payments to determine compliance with existing policy. Our audit covered the fiscal year 2006-07.

5.7 The audit included travel expenditures of government departments. Crown corporations and agencies were not part of the audit scope, and because tourism expenditures are recorded under Tourism PEI, a crown corporation, they were not covered in this audit. In addition, our audit did not examine Ministers' travel.

5.8 We performed our examination in accordance with the standards for assurance engagements encompassing value for money established by the Canadian Institute of Chartered Accountants and accordingly included such tests and other procedures as we considered necessary in the circumstances.

DETAILED AUDIT OBSERVATIONS

In-Province Travel

5.9 Our review of in-province travel expenditures centered around compliance with the existing Treasury Board (TB) Travel Policy. We looked at two TB policy sections when assessing compliance for in-province travel expenditures: Section 17.02 In-Province Travel and Section 17.05 Allowance for Low Distance Drivers. Payments for in-province travel during fiscal 2006-07 amounted to $4.5 million.

5.10 When performing our testing, we looked to see that:

- claims were approved at the appropriate level;
- employees provided sufficient information on their claims such that the policy could be properly applied; and
- reimbursements were based on allowances established under TB policy.

5.11 We noted one employee who received daily reimbursement for travel to and from their primary work location. Travel to and from one's primary workplace is considered personal travel, and TB policy does not allow reimbursement for this travel. The arrangement was approved by the Department in April 2003. This employee received approximately $39,000 in travel reimbursement from April 2003 to March 2007. This arrangement was not approved by Treasury Board and contravenes Treasury Board Policy on travel.

5.12 During our audit we noted that a number of employees were receiving a monthly low distance travel allowance. For the calendar year ended December 31, 2006, there were 31 employees from two departments receiving this allowance. There are two documents that enable this payment: the TB policy on Allowance for Low Distance Drivers and the Collective Agreement between Government and the Union of Public Sector Employees (UPSE).

5.13 These documents provide for the employing authority to determine which employees are eligible for the low distance allowance and further that the eligibility be reviewed on an annual basis.

Treasury Board policy provides guidance in assessing eligibility and states that generally employees should be traveling 80 percent of the time, or four days out of five per work week.

5.14 The low distance allowance was introduced over ten years ago, and at that time, job duties for a number of government jobs were reviewed in detail to determine eligibility for the allowance.

5.15 We were informed by one department that their annual review consisted mainly of verifying whether the requirement for their employees to have a vehicle was still a part of the job description, but they do not assess whether the job requirements still warrant the employee to be eligible for a monthly low distance allowance. Similarly, the other department advised that the eligibility for the low distance travel allowance is not reviewed by the department on an annual basis.

5.16 We reviewed travel claims data for employees receiving the low distance allowance in one department and noted that a number of employees travelled less than 3,750 kilometers during the year and some travelled four months or less and received the allowance for the entire year.

5.17 Payments to employees receiving the low distance allowance amounted to approximately $95,000 for the calendar year 2006. If these employees did not receive the travel allowance and were instead reimbursed at the full rate based on kilometers driven, the travel payments would have amounted to approximately $33,000, a difference of $62,000.

Recommendations

5.18 Treasury Board policy regarding personal travel to and from a work location should be followed. Any exceptions to Treasury Board policy should receive Treasury Board approval.

5.19 In accordance with the UPSE Collective Agreement and Treasury Board policy, departments should review, on an annual basis, employees' continued eligibility for a monthly travel allowance.

Out-of-Province Travel

5.20 Our review of out-of-province travel expenditures centered around compliance with existing policies: Treasury Board Policy Section 17.03 Out-of-Province Travel and the policies and procedures for Procurement Cards. Spending on out-of-province travel amounted to $1.6 million in fiscal 2006-07.

5.21 During our out-of-province sample testing, we looked to see whether:

- the claims were properly approved including both evidence of pre-approval at the Deputy Minister level and approval for payment of the travel claim;
- employees provided sufficient information on their claims such that the policy could be properly applied;
- reimbursements were based on allowances established under TB policy; and
- advances were paid in accordance with TB policy.

5.22 All sample items provided sufficient information and reimbursements were made based on the allowances outlined in TB policy. With the exception of one Department where the delegation of signing authority by the Deputy Minister was not documented, the travel claims in our sample were properly approved.

5.23 Procurement Cards (PCards) were first introduced in 2004 as part of a government wide pilot project. PCards are government credit cards issued to employees for the purpose of acquiring goods and services for government operations. The liability to make the payment to the credit card company rests with government. Credit card programs in general have inherent risks. In order to mitigate the inherent risks of any procurement card program, an adequate control

framework should be in place to ensure all the cards are properly authorized and appropriately used.

5.24 PCards are used for making different types of purchases; however, our audit examined only travel related purchases. Out-of-province travel spending on PCards amounted to $288,000 in 2006-07. We examined transactions for the fiscal year ended March 31, 2007, and we limited our review to the four departments which accounted for approximately 80 percent of out-of-province PCard travel spending: Provincial Treasury; Education; Agriculture, Fisheries, and Aquaculture; and Environment, Energy, and Forestry.

5.25 We expected departments to have an adequate review process to ensure that travel items paid for using the government PCard were not claimed for reimbursement by employees on travel claim forms. We noted there is a disconnect between the review and payment of travel claims and the review and payment of PCard transactions. This disconnect could result in employees being reimbursed for costs that were paid for using the government PCard or it could result in payments that are not in compliance with TB policy. When departments were asked how they ensure that travel expenses paid for using a credit card were not in fact government issued PCards, the four departments advised that they did not have specific procedures in place.

5.26 We reviewed the Procurement Card Policy and Procedures document that was in place at the time of our audit. We had a number of issues with the document. In general, usage of the PCard and roles and responsibilities for program administration were not clearly outlined. To help ensure that the control framework is effective and operating as intended, all responsibilities related to program administration should be clearly addressed in the Policy and Procedures document. The Comptroller's office is taking action to amend the PCard policies and procedures.

5.27 In August 2005, Treasury Board approved the PCard Policy and Procedures for inclusion in the Treasury Board Policy and Procedures Manual but at the date of our audit, PCard policies had not been added to the TB Manual.

5.28 We reviewed the policy and procedures and checked that, for our sample of Pcards, all relevant paperwork existed to support the application and issuance of the Pcard, the approval of the travel transactions, and the day to day administration of the program.

5.29 Section 40 of the Financial Administration Act (FAA) requires that departments certify that goods and services have been received and at a reasonable cost prior to invoices being paid. The policy and procedures for the use of PCards provides a control framework for the review of PCard invoices and approval of PCard transactions. The control framework for Pcards provides for post-payment verification and approval of expenditures. Therefore, it is important that all control procedures be followed.

5.30 We were advised that approvers often do not have invoices to examine when approving electronically, and instead they assess for reasonableness until they receive the documentation. The following controls compensate for the risks associated with this practice: reviewing the documentation later, approving the PCard logs, a centralized process to send supporting documentation to the Comptroller's office, and follow up by the Comptroller's Office of any missing documentation. We noted instances in one department where PCard logs were not being approved to indicate that invoices were reviewed. Further, we determined that there were two other employees from that same department who did not submit any receipts for approval for the entire fiscal year amounting to approximately $16,500. We were advised, subsequent to our audit work, that $6,900 of the receipts were later provided.

Recommendations

5.31 Departments should implement controls to cross reference PCard travel transactions with travel claims to ensure transactions paid by using a PCard are not claimed for reimbursement.

5.32 The PCard Policy and Procedures document should be amended to more clearly outline PCard usage and the responsibilities for program administration.

5.33 As approved by Treasury Board, PCard policies should be included in the Treasury Board Policy and Procedures Manual.

5.34 In accordance with PCard policies, departments should ensure that all PCard logs are prepared, approved and submitted to the Office of the Comptroller.

Fleet Management

5.35 The government light vehicle fleet at March 31, 2007 consisted of approximately 300 vehicles, including 56 under lease. The government fleet includes passenger cars, vans and trucks. The annual operating costs for these vehicles totaled approximately $1.2 million for the year ended March 31, 2007. This includes fuel, repairs and maintenance, and leasing costs.

5.36 Section 18 of the Treasury Board Policy and Procedures Manual addresses a number of areas related to government vehicles including:

- acquisition and disposal of vehicles;
- assignment of vehicles to employees;
- personal use of vehicles;
- operation and maintenance of vehicles;
- fleet credit cards; and
- the Fleet Management System (FMS).

5.37 We selected a sample of vehicles from the government fleet and checked for compliance with Treasury Board policies.

5.38 Except for short-term rentals, all requests to purchase or lease vehicles are to be approved by the Deputy Head or delegated officer, and vehicles are to be tendered by Procurement Services in Provincial Treasury with tenders to be awarded pursuant to the Public Purchasing Act. Government vehicles acquired by long-term lease are to be covered by a standard lease agreement and be executed by the Provincial Treasurer or delegated officer. For our sample items, all vehicle purchases were tendered and properly approved.

5.39 Treasury Board policy requires that departments assess fleet requirements on an annual basis and incorporate their vehicle requirements into a Fleet Management Plan. Departments are to consider a number of factors to assist in arriving at the most cost-effective options: availability of other vehicles in the fleet, employees being compensated to use their own vehicle, feasibility of short-term leases, maintenance costs on current versus replacement vehicles, the cost of lease versus purchase, and feasibility of acquiring used vehicles.

5.40 The Department of Transportation and Public Works has the majority of government vehicles, and we expected a documented analysis of options based on the needs of the Department. The Department had a working draft of a five year fleet replacement plan, however, it was limited to a listing of vehicles including annual usage data and repair costs. There was no documented cost benefit analysis completed by the Department on the various options of meeting their travel needs.

5.41 A number of vehicles are leased by government departments. Of the 56 vehicles leased at March 2007, 28 were leased by the departments of Social Services and Seniors and Health. These leased vehicles represented approximately 50 percent of the total fleet of these two departments. We expected to find a documented cost benefit analysis on the various options for meeting their travel needs. We were not provided with any documented analysis of options.

5.42 Treasury Board policy requires departments to provide a vehicle to employees who travel in excess of 35,000 kilometers per year. The policy also states that departments should work toward

making it a condition of employment that employees provide their own vehicle in cases where they are expected to travel on a regular basis, not exceeding 30,000 kilometers annually.

5.43 We noted three employees in two departments who travelled in excess of 35,000 kilometers during the year and were reimbursed for travel. During our audit we were advised that one has subsequently been provided with a vehicle. Ten other employees in these two departments travelled in excess of 30,000 kilometers and were also reimbursed for travel. Over the last three fiscal years, the thirteen employees from these two departments received approximately $470,000 for in-province travel, an average of $36,000 per employee.

5.44 We noted instances where vehicles were leased and estimated usage for 2006-07 was lower than the 30,000 kilometers threshold outlined in TB policy. The policy indicates that where travel is 30,000 kilometers or lower, it is normally more feasible to reimburse employees for travel with their own vehicle.

5.45 The distance thresholds outlined in the TB policy for requiring a vehicle to be provided to an employee were established in 1992. For travel over 35,000 kilometers in a year, a department is required to provide an employee with a vehicle, and for travel over 30,000 kilometers but below 35,000 kilometers, departments are encouraged to provide the employee with a vehicle. These thresholds have been in place for over 15 years, and various costs, especially fuel, have changed substantially during that period. Treasury Board should reexamine the thresholds to ensure policies reflect a cost effective method for departments to meet their travel needs.

Recommendations

5.46 In accordance with Treasury Board policy, departments should complete a documented cost benefit analysis on options to meet their annual travel needs.

5.47 Departments should ensure that Treasury Board policy regarding assignment of government vehicles is followed.

5.48 Treasury Board should re-examine the distance thresholds outlined in its travel policy.

5.49 Vehicles acquired by departments may be assigned to one employee or to a group of employees under a pool arrangement. In the case of an assigned vehicle, Treasury Board policy requires each employee to sign a Vehicle Acknowledgment Form. Where a vehicle is part of a pool arrangement, Treasury Board policy requires departments to designate a principal driver/caretaker of the vehicle who is required to sign a Pool Vehicle Acknowledgment Form. These acknowledgement forms set out the responsibilities of the employee and government in the care and control of the vehicle. A number of employee responsibilities are outlined including the requirement to maintain and submit vehicle log reports and obtain appropriate approval to take the vehicle out of province.

5.50 We expected to find signed vehicle acknowledgement forms for the government vehicles in our sample. We observed a number of instances where vehicle acknowledgement forms were not signed by employees.

Recommendation

5.51 Departments should ensure that employees, who are assigned a government vehicle or given primary responsibility for a pool vehicle, sign the prescribed Treasury Board vehicle acknowledgement forms.

5.52 Treasury Board policy requires reimbursement by employees for personal use of a government vehicle which exceeds 3,000 kilometers per fiscal year. We examined reimbursements for personal use of assigned vehicles. We noted that reimbursements were not always made as required by policy. We noted that four employees in one department owed a total of $1,526 for personal use of vehicles which accumulated during 2006 and was unpaid at March 31, 2007.

Recommendation

5.53 Departments should ensure compliance with the Treasury Board policy requirement to make payment for personal use of government vehicles, and take immediate action to collect all amounts due from employees.

5.54 To assist departmental managers and Procurement Services of Provincial Treasury in monitoring fleet operations, a Fleet Management System has been developed. Departments are required to maintain a complete and accurate record of operational data on each vehicle. This information is to be reported on a monthly basis and input into the government-wide Fleet Management System.

5.55 A Vehicle Log Book is to be maintained in all government vehicles detailing the use of the vehicle and the vehicle costs incurred, and it is to be submitted monthly to the Department administrator for each vehicle operated during the month. For the vehicles in our sample, we expected monthly vehicle logs to be prepared and submitted for approval. We observed a number of instances where monthly logs were incomplete, not submitted on a timely basis, or not available.

Recommendation

5.56 Departments should ensure that monthly log reports are prepared and submitted on a timely basis.

5.57 Fleet credit cards are provided to employees who have been assigned responsibility for a government vehicle. These are to be used for the purchase of fuel, lubricating products and services, and normal maintenance and repairs. Departments are responsible for the use and security of credit cards and also for the subsequent payment of any charges against these cards.

5.58 Treasury Board policy states that only one credit card may be assigned to each vehicle, and each employee who has been assigned a government vehicle is required to sign a Vehicle Credit Card Acknowledgment Form. In the case of a pool vehicle, the employee

who is the principal driver/caretaker is required to sign the form. In addition, credit card receipts are to be retained and submitted with the monthly vehicle log reports.

5.59 We expected to find signed credit card acknowledgment forms for all fleet credit cards issued for the vehicles in our sample, and departments to have a complete up-to-date list of all authorized credit cards issued referenced to a specific government vehicle. For the majority of vehicles in our sample completed credit card acknowledgement forms were not on file in the departments. We also noted cases where departments did not maintain an accurate up-to-date listing of all fleet credit cards issued. For one vehicle we noted there were two credit cards issued and charges were made on both credit cards for a six month period.

5.60 Treasury Board policy requires Procurement Services, of Provincial Treasury, to maintain a master list of all fleet credit cards issued. We were advised during our audit that Procurement Services did not have a current listing. Subsequent to our inquiries, they did obtain a list from the fuel supplier.

5.61 Because of the large number of vehicles and fleet credit cards in the Department of Transportation and Public Works, we also inquired about the procedures in place for verifying credit card billings. We were advised that there is no checking, even on a sample basis, from the credit card statement to supporting credit card slips.

Recommendations

5.62 In accordance with Treasury Board policy, departments should ensure that credit card acknowledgment forms are signed when employees are issued fleet credit cards.

5.63 In accordance with Treasury Board policy, Procurement Services of Provincial Treasury should maintain a master list of all fleet credit cards issued.

5.64 Departments should ensure that an accurate up-to-date list is maintained of all fleet credit cards issued, and only one card should be issued for each vehicle.

5.65 The Department of Transportation and Public works should implement procedures to verify fleet credit card billings.

5.66 A Fleet Management System (FMS) was developed to record relevant information on light government vehicles and to produce management reports on government owned and leased vehicles. The information would include a profile of the fleet, cost data, vehicle use data and would serve as a basis for determining insurance coverage.

5.67 Treasury Board policy assigns responsibility for the overall operation of the FMS to the Fleet Coordinator in the Department of the Provincial Treasury. Departments, however, are responsible to ensure any acquisitions or deletions to their departmental light vehicle fleet are entered in the FMS. In addition, they are required to enter monthly operating costs and usage data into the FMS.

5.68 The FMS includes a listing of light vehicles by department referred to as the corporate fleet. For vehicles on the corporate fleet, there is an interface between the government's accounting system and the FMS. This allows fuel costs for vehicles, as charged on fleet credit cards, to be allocated to specific vehicles. Usage data or kilometers driven on each vehicle is to be entered from the monthly log reports. The system was designed to capture this information for all government light vehicles with the intention that useful reports could be produced to monitor government vehicles.

5.69 We noted that the corporate fleet listing for the Department of Transportation and Public Works does not include over 30 service vehicles used by the Department mainly for highway maintenance activities. These vehicles are light fleet vehicles and have assigned fleet credit cards, but because they are not on the corporate fleet, the fuel and any other operating costs paid for with fleet credit cards are not allocated to specific vehicles. This impacts the accuracy and completeness of operating costs reported for these service vehicles.

5.70 We noted deficiencies in the completeness of other departmental vehicle listings as well as the input of vehicle usage and operating cost information. This impacts the accuracy and completeness of data in the FMS. The FMS can be an effective tool for accumulating information and monitoring fleet activities only if the necessary data is gathered and input in the system on a timely basis.

Recommendations

5.71 Service vehicles in the Department of Transportation and Public Works should be added to the corporate fleet listing, and any operating costs of these vehicles, paid for with fleet credit cards, should be allocated to specific vehicles.

5.72 Departments should ensure that listings of government vehicles on the Fleet Management System are complete and accurate and vehicle usage and operating costs are entered on the Fleet Management System.

MANAGEMENT RESPONSE

5.73 Our report was provided to Treasury Board and a written response will be prepared.

6. SMALL CLAIMS PROCESS

BACKGROUND

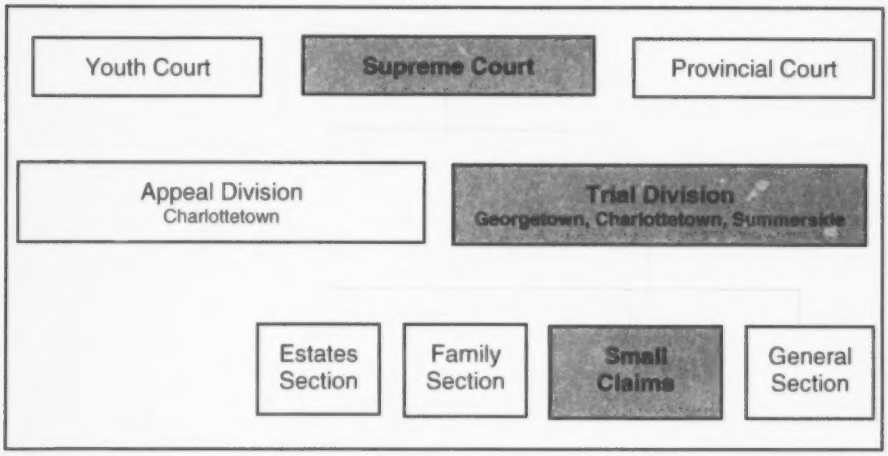
6.1 On February 14, 2007 the Public Accounts Committee passed a motion requesting the Auditor General to undertake an audit of the Small Claims Court Process and report back to the Committee as soon as possible.

6.2 Our report was completed in August 2007 but could not be forwarded to the Committee. The Committee was dissolved pursuant to the dissolution of the General Assembly on April 30, 2007. We were informed by the Clerk of the Legislative Assembly that the new Public Accounts Committee would have to request the report for their review. This request was made on February 12, 2008

6.3 The concept of independence is a fundamental tenet of the judicial system. The independence of the judiciary is constitutionally required and we were fully aware, in conducting this audit, of the need to respect that independence. The Legal and Judicial Services Division of the Office of the Attorney General is responsible for providing court staff, facilities and support services to the judiciary and for managing the related budget. Coordination and cooperation with the judiciary is necessary for the Division to fulfil its mandate.

6.4 The court structure on Prince Edward Island consists of three branches; the Supreme Court, the Provincial Court and the Youth Court. **Exhibit 6.1** provides a schematic to illustrate the court structure. The Small Claims section falls under the Trial Division of the Supreme Court.

EXHIBIT 6.1
PRINCE EDWARD ISLAND COURT SYSTEM STRUCTURE
SMALL CLAIMS PROCESS



6.5 The Supreme Court Act establishes the four sections of the Trial Division of the Supreme Court and includes Small Claims as one of those sections. The jurisdiction of small claims court includes personal actions of debt, covenant, and tort where the debt or damages do not exceed the prescribed sum. The prescribed limit is determined from time to time and published in the Royal Gazette. At the current time the prescribed limit is $8,000. Action can be taken on issues of a larger nature if the plaintiff agrees to reduce the claim for recovery to $8,000.

6.6 The Prothonotary is an officer of the Supreme Court of Prince Edward Island. The Prothonotary is appointed under the Civil Service Act after consultation with the Chief Justice of Prince Edward Island and the Chief Justice of the Trial Division. The Prothonotary performs duties imposed by certain Acts and by direction of the court. In addition to numerous responsibilities under the court, in relation to small claims, the Prothonotary carries out a preliminary hearing on small claims cases where a defence has been filed and the case has not been resolved.

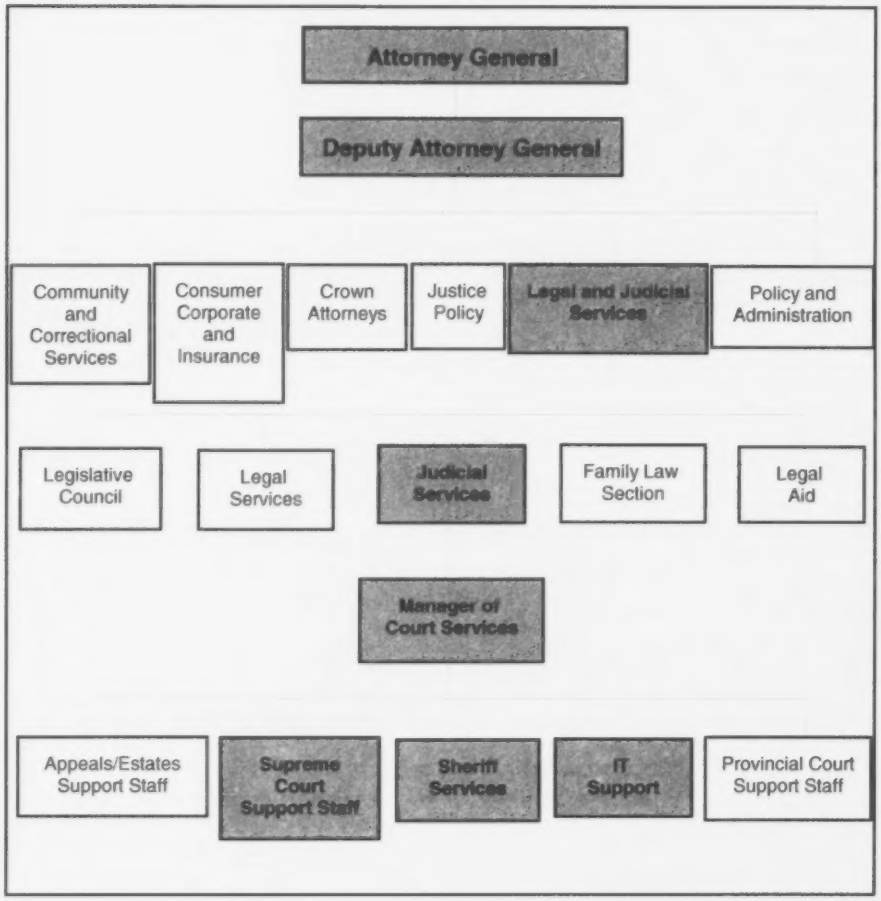
6.7 Section 24 of the Supreme Court Act establishes the Rules Committee of the Court which is composed of:

- the Chief Justice of the Supreme Court;
- the Chief Justice of the Trial Division;
- two other judges appointed by the Chief Justice;
- the Attorney General or designate;
- two members in good standing of the PEI Law Society; and
- a person appointed by the Chief Justice to act as secretary.

6.8 The Rules Committee has established the Small Claims Court Rules which set out the procedural requirements for matters falling within the jurisdiction of Small Claims.

6.9 While the Court and Prothonotary have responsibility for legal matters related to small claims, the Office of the Attorney General is responsible for administrative matters related to processing small claims. **Exhibit 6.2** shows the organization chart for the Ministry. Small claims administrative support staff report to the manager of Court Services. Sheriff Services also falls under the direction of the Court Services manager.

EXHIBIT 6.2
OFFICE OF THE ATTORNEY GENERAL
ORGANIZATION STRUCTURE
SMALL CLAIMS PROCESS



6.10 Sheriff Services is involved in the collection of small claims awards when judgments are issued. This is only one of the duties assigned to sheriffs.

6.11 Although Small Claims deal with matters that are minor in financial magnitude, it is an important section of the court because it allows the average citizen to access the justice system when they feel they have been unfairly treated. In Small Claims the parties often

represent themselves without the cost of obtaining professional legal counsel. In many cases the Small Claims process will be the only exposure that the average person has to the justice system and it is important that the system provides timely, efficient access to justice for the individuals involved. There were 642 small claims filed in 2004; 699 in 2005; and 601 in 2006. Only a small percentage of small claims cases go to trial.

6.12 The management information system for the courts is a dedicated database system. It includes all court filings and registrations of legal action including proceedings on Small Claims. The system includes information on each case by file number, the parties, legal counsel if any, and all actions on the case including all documents registered and the dates.

OBJECTIVE AND SCOPE

6.13 In accordance with Section 13 of the Audit Act, we conducted an audit of the Small Claims process. Our objective was to determine if appropriate management practices are in place over the administration of the process, monitoring of caseloads and waiting times, management of collection activities and reporting of results achieved.

6.14 The scope of our audit included interviews with Ministry and Court officials as well as examination of small claims files from across the province for compliance with the Small Claims Court Rules. We also examined documentation related to collection efforts on small claims awards.

6.15 In addition we interviewed the Chief Justice of the Trial Division who provided us with background information on the court system and the judicial support services provided through the Office of the Attorney General. We did not audit the court proceedings and our work does not reflect on the decisions of the Court taken in any small claims matter.

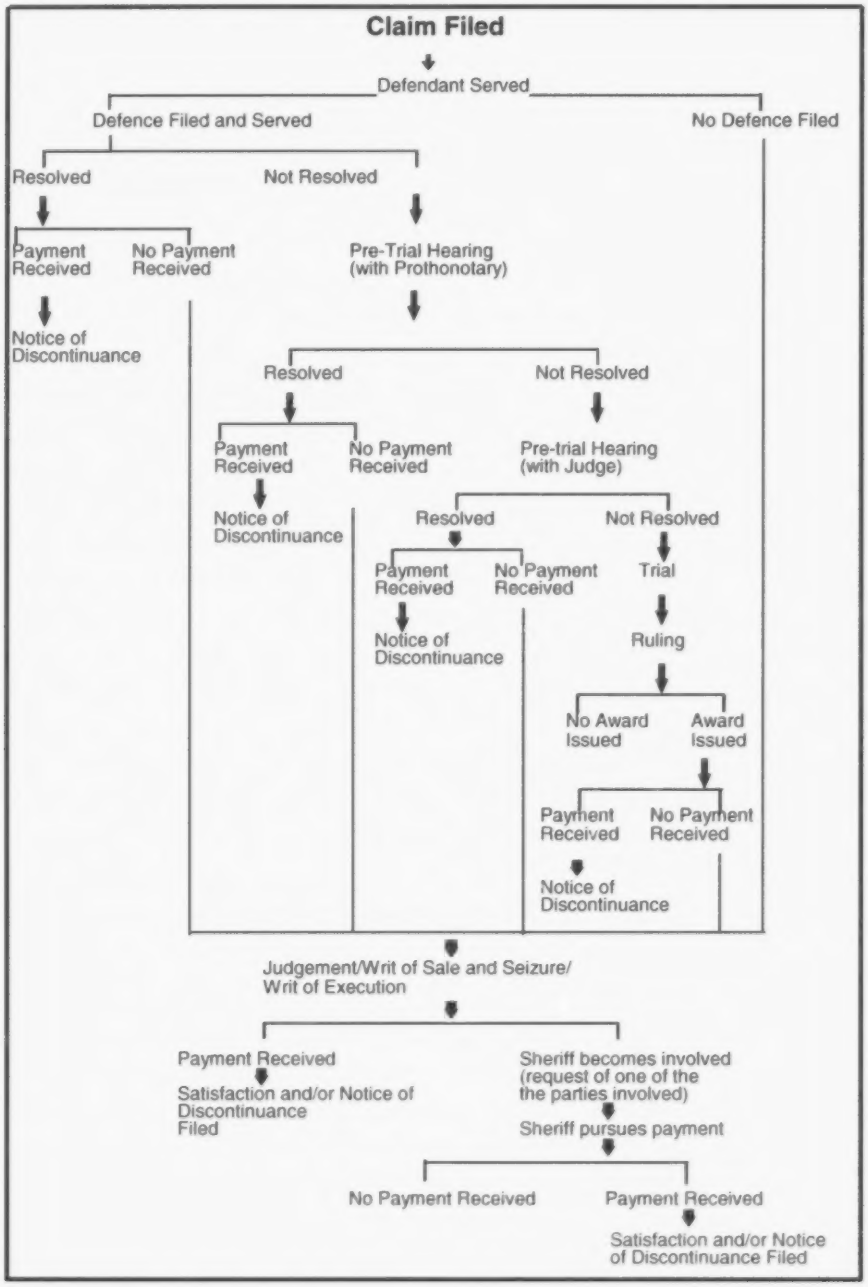
6.16 We performed our examination in accordance with the standards for assurance engagements encompassing value for money, established by the Canadian Institute of Chartered Accountants and accordingly included such tests and other procedures as we considered necessary in the circumstances.

DETAILED AUDIT OBSERVATIONS

Small Claims Processing

6.17 The Small Claims process is initiated by the plaintiff and at various stages in the process the plaintiff must move the case to the next level in order for action to continue on the case. **Exhibit 6.3** provides a schematic of the steps in the processing of a small claim.

EXHIBIT 6.3
SMALL CLAIMS PROCESS



6.18 As illustrated in the schematic, the small claims process starts with the filing of a claim. The claim is served on the defendant who has up to 20 days to file a defence. If no defence is filed the plaintiff may seek a judgement by default. If a defence is filed and the case is not resolved, there is a pre-trial hearing scheduled with the prothonotary. At this point in the proceeding the legal issues are examined with both parties present. If the situation is not resolved, it will be scheduled for trial before a judge. A trial date is set and the parties are notified. On the date of the trial, a pre-trial hearing is held in front of a judge of the Supreme Court who hears the evidence for both sides and seeks a settlement. If it cannot be settled at pre-trial, it goes to trial before a different judge normally on the same day as the pre-trial.

6.19 When a decision is reached by the judge, an award may be made. The plaintiff then has the option to file a judgement and a writ of execution or a writ of sale and seizure of personal property. A judgement is in force for ten years and can be renewed for an additional ten years. It attaches to the defendant's credit rating and comes into effect if the defendant tries to borrow or engage in the purchase or sale of real property. A writ of execution or a writ of sale and seizure, allows the Sheriff to begin collection efforts against the defendant. It stays in effect for one year and can be renewed annually.

6.20 In the Small Claims process there are various points where action is required on behalf of the plaintiff in order to move the case forward. If the plaintiff does not take action, the case will not proceed. In addition there are numerous reasons why it may be difficult to collect even when a judgement is obtained. In some cases the plaintiff knows very little about the debtor. It may be difficult for Sheriff Services to identify and locate the debtor and his assets. In some cases the debtor is in a low income bracket and cannot afford to pay out the debt. In other cases a debtor may appear to have assets but there is no equity or they are held in someone else's name.

6.21 It is important for the plaintiff to have basic information on the Small Claims process so he can understand what action is required

and what he can reasonably expect to achieve. For example, the plaintiff needs to carefully consider how to name who the claim is against because it may impact the ability to enforce a writ during collection procedures. We found that several other provinces have information available on the internet and in brochure format which can be accessed before entering into the process. We were advised by Sheriff Services that a brochure on the Small Claims process is under development.

Recommendation

6.22 An information brochure should be developed and available which describes the requirements of the Small Claims process and the limitations on collection.

6.23 One measure of the effectiveness of the Small Claims process is the ability to fairly resolve disputes in a timely manner. We expected management procedures to be in place to facilitate the timely processing of claims. We found there were no documented targets for the processing of small claims. While all small claims cases have certain similarities, they are all unique. It is therefore understandable that there are numerous factors that may impact the length of time required to process any particular case. We requested information from other provinces on the normal time to disposition of small claims cases. Not all provinces had this data available. The responses that we received indicated the majority of cases that go to court are dealt with between 2 to 11 months from the date of filing.

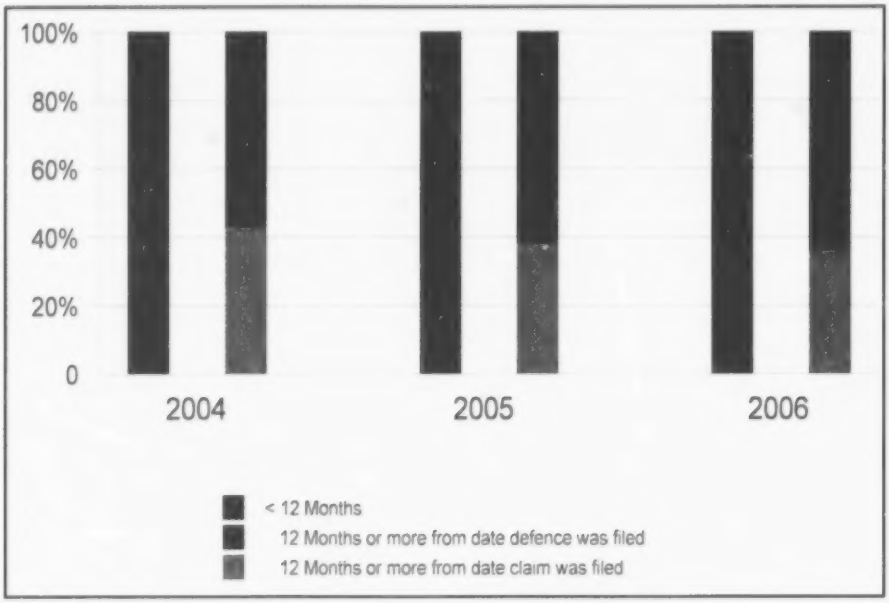
6.24 We reviewed the length of time it takes for a small claim to be processed. Some of the factors which may impact the time to process small claims include: the time lines allowed for filing various documents; the scheduling of pre-trial hearings with the Prothonotary; and the scheduling of trials before a judge. For approximately 75 percent of claims filed there is no defence filed and even when a defence is filed, many are then resolved by the Prothonotary, subsequently settled, or abandoned before the trial stage meaning that only a small percentage of small claims filed go to trial.

6.25 Under the requirements of the Small Claims Court Rules, the pre-trial with the judge must be a different judge than the one who sits for the trial. It has, therefore, been the practice to accumulate cases and book small claims trials over a period of two days with four judges in attendance. The judges conduct pre-trials in the morning then switch cases and hear trials in the afternoon. This allows 16 to 20 cases to be heard at a trial session. Once a date is set and the docket is full, the parties are notified but during this time additional cases are accumulating which are then set down for the next anticipated two-day session. Normally there were two sessions per year but in 2006 three sessions were scheduled. The scheduling process has resulted in some extended wait times for certain cases depending on the timing. We reviewed a case for example, where the pre-trial hearing with the Prothonotary was held on June 30, 2004 and the trial was scheduled for April 18, 2005.

6.26 We obtained small claims trial schedules for 2004, 2005 and 2006. We examined each case on the trial schedule to determine the length of time from the date the claim was filed to the scheduled trial date. We found that in 2004, 43 percent of the cases that were scheduled for trial were 12 months old or more from the date the claim was filed; in 2005, 38 percent; and in 2006, 36 percent.

6.27 We also used the trial schedules to calculate the length of time from the date a defence was filed to the scheduled trial date. This would normally include only the time to the scheduled pre-trial hearing with the Prothonotary as well as the time to the scheduled trial. We found that in 2004, 32 percent of the cases scheduled for trial were twelve months old or more; 33 percent in 2005; and 28 percent in 2006. These results are illustrated in **Exhibit 6.4.**

EXHIBIT 6.4
SMALL CLAIMS PROCESS
TIME TO SCHEDULED TRIAL DATE



6.28 We were advised just prior to completion of our work, that the Chief Justice of the Trial Division is now requesting that cases waiting for small claims trial dates be forwarded monthly to the court for possible scheduling.

Recommendations

6.29 Documented targets should be established for the timely processing of Small Claims cases and actual results measured against the targets.

6.30 The current practice for scheduling cases for trial should be re-examined.

Management Information

6.31 A database system is in place for Court Services which accumulates and stores information on each case processed by the courts. In relation to small claims, each case is assigned a case number and all court activity on that case can be accessed and examined.

6.32 We expected management to receive and review summary reports on the processing of small claims cases to allow continuous monitoring of case volumes, case flow, and dispositions. We found that management did not receive periodic summary reports on the processing of Small Claims cases. While the system allowed management to access information on a particular case, obtaining any type of summary information was problematic.

6.33 When information is entered into the database each activity on the case is designated by an event code. For example, event code 7382 is used to indicate a minute of judgement. The development and implementation of these event codes over the years has not been adequately controlled. The result is numerous codes for similar or the same events. We noted over 250 separate codes were used in relation to small claims cases. Because of the similarities and duplication of these event codes, even when using consultants to obtain reports from the system, it is difficult to determine if the resulting information is complete and accurate.

6.34 In addition to numerous event codes assigned to record information in the system, we also noted that some information for management purposes is not reflected in the system. For example, as previously indicated there are certain stages where the plaintiff or the defendant is required to file a document for action to continue on the case. From our review of a sample of files we noted a number of cases where the claim was collected in full even though no official satisfaction had been filed with the court and reflected in the management information system. Under the current practice the onus is on the defendant to ensure a satisfaction is filed. The fact that collection is complete however, is important information for

management particularly in determining the active pending caseload. Information on collection is available in Sheriff Services but is not input into the management information system.

6.35 Management of Court Services recognize there are inadequacies in the current management information system for all of court services including small claims. We were advised that a process is in place to determine the information needs for court services so that appropriate measures can be taken to address these needs when the management information system is upgraded or replaced.

Recommendation

6.36 Action should be taken to ensure that a management information system is in place which provides sufficient, appropriate information for planning and decision making for the Small Claims section.

Collections

6.37 When a judgement is made in a small claims case the plaintiff can register a writ of execution or a writ of sale and seizure. When these documents are registered, under the Sheriff's Act, the sheriff has authority to collect on the judgement through seizure of personal assets or garnishee of wages. There are currently nine Deputy Sheriffs reporting to the Chief Sheriff; three in Prince County and six serving Kings and Queens counties.

6.38 The primary goals of Sheriff Services are:

- Ensure courts in the Province are secure and safe environments;
- Provide quality service to the courts and others in the area of jury management, execution of court orders and arrest warrants, service of government documents and maintenance enforcement orders, and writs of execution management;
- Provide effective service in the collection of outstanding fines; and
- Provide effective service as court bailiffs.

6.39 There are approximately 200 writs registered each year relating to small claims. When a writ is registered there is a fee and the original and several copies of the writ are provided to the plaintiff with the direction to file the writ with Sheriff Services. There is currently no process for the registrar to notify Sheriff Services when a writ is registered. In some cases, the plaintiff will take the writ to the defendant directly to try to collect.

6.40 A number of problems can result when a writ is not filed with Sheriff Services. The first issue arises if the defendant comes to Sheriff Services at a later date to obtain a legal satisfaction of the debt. In this case, there will be no record that the debt was paid. Secondly, under the current practice it is difficult to get an accurate listing of the active writs for which Sheriff Services is accountable. For example, when we carried out our testing on collections, three files could not be located and we were advised that these writs had not been filed with Sheriff Services. Upon further follow up, however, we determined the writs had been filed with Sheriff Services and the files in question were subsequently located. Thirdly, when a plaintiff tries to enforce a writ he is actually using the authority of Sheriff Services because the wording of the writ states the Sheriff has authority to take action to collect. When someone other than an employee is enforcing the document, it could reflect poorly on Sheriff Services if the collection approach is not appropriate. In addition, certain action taken by individuals can impede the subsequent collection efforts by the Sheriff.

Recommendation

6.41 The Prothonotary's Office should ensure that all writs are filed with Sheriff Services for collection as soon as they are registered.

6.42 There is a general process in place at Sheriff Services for the collection on writs of execution. When a writ is filed with the Sheriff it is entered in the writ book which is the formal record for all writs to be acted on. The calculation of fees and services is added and in Charlottetown the writ is also added to an outstanding writ list

database. After the writ is entered a demand letter is sent to the debtor along with a copy of the writ indicating the matter has been filed with the Sheriff for collection. A ten day time frame is given within which the debtor is to respond with a plan to settle the matter. This may include a full payout, an offer for less than the full amount, a proposed payment schedule or a voluntary wage garnishee. All proposed payments are then sent to the plaintiff for acceptance or rejection. A worksheet is prepared and the file is assigned to a Deputy Sheriff.

6.43 If the defendant does not respond to the demand letter the plaintiff can direct Sheriff Services to seize and sell assets, to conduct an examination in aid of execution, or to conduct a wage garnishee hearing. There is a fee for each of these services payable by the plaintiff and collectible from the defendant if Sheriff Services is successful in its collection efforts.

6.44 We expected an adequate system to be in place for documenting the results of collection efforts and the satisfaction of claims. When a writ is assigned to a Deputy Sheriff, the details of the writ and a worksheet are provided to record all collection activity on the account. From our sample of files, we found a wide variation in the extent of information on the worksheets regarding the collection of writs for small claims. The information varied from only a copy of the demand letter sent out to detailed records of the search for assets, debtor's examination, garnishee hearing and collections on the account. We could not determine if the appropriate procedures were carried out and not documented or not carried out. In addition, we noted one case where the debt was collected and a satisfaction document was completed but it was not registered with the Court. If a minimum set of procedures were established, the Deputy Sheriff could initial each procedure as completed or indicate why it was not applicable in the circumstances.

Recommendation

6.45 Sheriff Services should establish a checklist of collection procedures. Documentation on the completion of the procedures should be maintained for each case.

6.46 Under the Regulations to the Sheriff's Act the Sheriff has authority to collect a commission on the amount recovered on the writ. The commission is added on to the total writ and collected from the debtor. We found that the commission was not consistently calculated. In some cases certain fees were added and the commission calculated on the total amount and in other cases the commission was calculated on the net amount of the judgement before the fees were added. Occasionally the debtor pays the plaintiff directly and the commission is not collected by the Sheriff.

6.47 We noted there are government databases which contain information that may be beneficial to Sheriff Services in terms of locating and recording ownership for assets of the debtor. Specifically, consideration should be given to a routine search of the property tax database and motor vehicle registration database. We were advised that Sheriff Services is in the process of obtaining access to the motor vehicle registration database. A search of these databases could easily be incorporated into a set of minimum procedures for collection on writs keeping in mind the requirements of the Freedom of Information and Protection of Privacy Act.

Recommendations

6.48 The commission for Sheriff Services should be consistently calculated.

6.49 Sheriff Services should, where possible, access government managed information systems such as the Motor Vehicle Registration system and the Property Tax system to determine if debtors hold assets which can be seized. Reviewing these databases should be part of the procedures required for writ collection.

6.50 We expected an adequate information system to be in place at Sheriff Services to manage the writ collection efforts including current information on the number and dollar value of outstanding writs. We found the system currently in place does not provide sufficient information for management purposes.

6.51 The Charlottetown office has a list of outstanding writs which is updated as writs are filed with Sheriff Services. However, it does not designate Small Claims from general writs and the expiry dates are not indicated. We noted a number of cases where the debt was noted as collected in full in the file but there was no indication on the outstanding writ list that these writs had been collected. Designating writs where collection efforts are considered complete, would allow identification of the actual active writs on which the Deputy Sheriffs should be taking action. This information is essential for managing the workload and supervising Sheriff activities.

6.52 In Summerside there is currently no writ list available so information on writs must be obtained from a search of the writ book.

Recommendation

6.53 Information available to Sheriff Services should be improved to provide a Province-wide list of outstanding writs and to allow for enhanced management of writ collection activities.

Performance Measurement and Reporting

6.54 Good performance reporting requires the following steps: clear goals and objectives, relevant performance standards and targets, an appropriate method for measuring and comparing results, reliable systems to gather and provide the necessary information, and a reporting mechanism for communicating both accomplishments and areas requiring improvement.

6.55 Courts use public resources, therefore taxpayers and their elected representatives have the right to ask questions about efficiency and effectiveness in the expenditure of court funds. Performance

assessment is important to demonstrate the value of services delivered. In order for the Division to report on how it is performing it needs the capability to assess performance on some basis and compare the results to established targets.

6.56 We expected a process to be in place to measure and assess the performance of court services. Further we expected that results achieved by court services would be reported to senior management and the Legislature/public.

6.57 We reviewed the availability of information on court services in other provinces. Overall, there is limited information on performance publicly reported in other provinces on court services. There are some provinces that have significant reporting mechanisms and others that are moving towards increased and more comprehensive reporting. While performance measures for court services are not standardized, there are sources of performance measures for courts that are becoming more accepted. Examples of such measures follow:

- Time to disposition: percent of cases resolved within established time frames;
- Age of active pending caseload: percent of cases pending for longer than an established standard; and
- Clearance rates: the number of outgoing cases as a percentage of the number of incoming cases.

6.58 One of these measurements is the clearance rate; the ratio of case dispositions to case filings. This rate measures whether the system is keeping up with its incoming caseload. If cases are not disposed of in a timely manner, a backlog of cases awaiting disposition will grow. Knowledge of clearance rates can help pinpoint emerging problems and indicate where improvements can be made.

6.59 Using the database of Small Claims cases, we calculated the clearance ratio for Small Claims for 2004, 2005, and 2006. For this calculation, we are using the total claims filed not just the cases set down for trial. Although it includes more than the court aspect of the small claims process it is still useful information. **Exhibit 6.5** illustrates the growing number of pending small claims that have not been dismissed, discharged or satisfied based on the information recorded

in the database. Our recommendations earlier in this report related to improvements in the management information system will assist in clearing some of these cases where, for example, collection has been completed but not reflected in the system.

EXHIBIT 6.5
SMALL CLAIMS
CLEARANCE RATIO

	New Small Claims Filed	Claims Discontinued/ Resolved	Difference	Ratio
2004	642	305	337	48%
2005	699	282	417	40%
2006	601	310	291	52%
	1,942	897	1,045	

6.60 We found that there is currently no regular reporting on performance measures for court services or small claims in particular. The Attorney General's Office is behind in release of their annual report to the Legislative Assembly. The most recent report, 2003-04 did not include performance information in relation to court services or Small Claims. We were advised by management that this area is a priority area and a set of activity reports have been developed and will be provided to senior management in the near future.

Recommendation

6.61 Performance measures should be established for court services and the Legal and Judicial Services Division should report to senior management and the Legislature on the performance of court services including Small Claims.

FINANCIAL STATEMENT AUDITS

7. INTRODUCTION TO FINANCIAL STATEMENT AUDITS

INTRODUCTION

7.1 Section 13 of the Audit Act establishes the Auditor General's mandate to perform financial audits of the Public Accounts, Crown controlled or owned corporations, and the trusts and funds held by any agency of government insofar as they are not subject to financial audit by an external auditor.

7.2 Financial statements are management's responsibility and reflect management's assertions. They provide information that is used to make important economic decisions. It is imperative that the reader has confidence in the quality of that information.

7.3 The auditor is independent of management and can objectively assess the accounting principles used and the estimates and other decisions made by management as reflected in the financial statements. An examination of the entity's accounts is carried out in accordance with generally accepted auditing standards. These standards have been established over time and continue to evolve with the changing economic environment. The result of the examination is the auditor's opinion as issued in the Auditor's Report.

7.4 In addition to issuing an Auditor's Report on the financial statements, the auditor may also identify problems in the financial controls and accounting records. In these cases, findings and recommendations are reported in a management letter addressed to the department or agency.

7.5 For the majority of the financial statement audits we performed, management letters were issued. We brought to management's attention any problems noted during the audits and made recommendations for improvements. These recommendations are at various stages of implementation.

7.6 In the following sections we provide summary information on our audits of the Public Accounts and Appropriations.

8. PUBLIC ACCOUNTS

BACKGROUND

8.1 The Public Accounts include the annual financial statements of government and are the primary source of information on government's stewardship of public funds both to Islanders and to the Legislative Assembly.

8.2 The Public Accounts are prepared by the Comptroller and tabled by the Provincial Treasurer as required by the Financial Administration Act. According to the Act, the Public Accounts must contain the Financial Statements of the Operating Fund and the Consolidated Financial Statements of the Province, along with any other statement required by Act to be presented. The Consolidated Financial Statements provide the most complete information about the operating results and financial position of the Province as they consolidate the accounts of the Operating Fund with those of the Crown corporations and agencies.

8.3 The Public Accounts for the year ended March 31, 2007 consist of two volumes:

- Volume I contains the audited consolidated financial statements.
- Volume II contains the audited financial statements of the Operating Fund, Crown corporations and agencies.

OBJECTIVE AND SCOPE

8.4 In accordance with the Audit Act, we performed an audit of the Public Accounts of the Province for the year ended March 31, 2007. The objective of our audit was to express an opinion on the financial position and operating results of Government. Our audit reports on the Consolidated Financial Statements and the Operating Fund Financial Statements for the year ended March 31, 2007 did not contain any qualifications or reservations.

8.5 Under Section 17 of the Audit Act, the Auditor General is not required to audit or report on the accounts of any agency of government where another auditor has been designated to audit its accounts. In these instances, the Auditor General relies on the Auditor's Report for each of these entities when performing the audit of the Public Accounts.

8.6 This report contains comments and observations arising from our audit of the Public Accounts for the fiscal year ended March 31, 2007.

FINANCIAL HIGHLIGHTS

8.7 The following schedule provides a summary of the consolidated results for the last three years.

	Year Ended March 31 (Millions)		
	2007	2006	2005
Provincial Revenue	$ 756.1	$ 725.5	$ 672.6
Federal Revenue	474.4	444.4	443.5
	1,230.5	1,169.9	1,116.1
Expense	1,206.6	1,169.2	1,149.7
Annual Surplus (Deficit)	$ 23.9	$ .7	$ (33.6)

DETAILED AUDIT OBSERVATIONS

Outstanding Debentures and Related Accounts

8.8 The largest single liability on the Province's financial statements is its outstanding debentures, which account for $1.34 billion of the Province's $2.02 billion liabilities. All of these debentures have been issued in Canadian dollars. The outstanding debentures can be broken down into public issues of $1.20 billion and Canada Pension Plan issues of $140 million. The public issues have a sinking fund requirement. The Canada Pension Plan issues are for 20 and 30 year periods and do not contain sinking fund requirements.

8.9 During the year the Province redeemed a maturing debenture issue of $30.2 million. The Province had no new public debenture issues in 2007, opting instead to finance through issuance of short term notes. At March 31, 2007, the Province had outstanding treasury notes in the amount of $100 million. During the year the Province's borrowing rates on treasury notes ranged from 3.74 percent to 4.24 percent.

8.10 At March 31, 2007, the Sinking Fund for debentures held net assets of $269 million.

PEI Master Trust

8.11 Investments of the Civil Service Superannuation, Teachers' Superannuation and MLA Pension Funds are consolidated into the Province of PEI Master Trust. Individual funds receive units in the Master Trust based on the net contributions and allocated shares of income and expense. The investments are managed by investment managers external to government and an external custodian is responsible for accounting and record keeping. An Investment Advisory Committee, with representation from government and plan members, provides assistance to Provincial Treasury with the investment of the fund assets. The Fiscal Management Division of Provincial Treasury is responsible for overseeing the Master Trust.

8.12 A revised policy framework for investment of fund assets was developed and approved by Executive Council in September 2006. The revised policy retains asset mix targets of a 65/35 split between equities and fixed income investments and a target of 40 percent investment in non-Canadian equities. The revised policy expands the range of acceptable investments to include investment vehicles such as units of income and real estate investment trusts, foreign debt issues traded on a recognized exchange and mortgage backed securities. Further revisions to the investment policy were approved by Executive Council in December 2007. These revisions provide an investment mandate for a new investment manager and make related adjustments in the mandates of existing managers.

8.13 At March 31, 2007, the pension fund assets as reported by the custodian were $1.223 billion. The following table provides a breakdown of the Master Trust investments as of March 31, 2007 with comparative information at March 31, 2006. The balance includes amounts invested with the investment managers and amounts held in individual accounts of the participants.

PEI MASTER TRUST
INVESTMENTS
(Millions)

	Year Ended March 31	
	2007	**2006**
Accrued income	$ 5	$ 4
Short term investments	35	36
Canadian bonds, debentures and notes	345	298
Canadian equity securities	466	338
Foreign equity securities	372	252
Canadian real estate	-	2
	$1,223	$930

8.14 The investments include amounts which Master Trust fund managers have invested in their own pooled funds. The March 31, 2007 market values of pooled fund investments total $337 million.

8.15 The market value of the pension plan assets held by the Master Trust was $1.223 billion at March 31, 2007 compared to a market value of $930 million at March 31, 2006. The following table illustrates the components giving rise to the change in assets as well as the rate of return on trust assets.

PEI MASTER TRUST
CHANGE IN TRUST ASSETS
(Millions)

	Year Ended March 31	
	2007	2006
Special contributions by Government	$ 22	$ 19
Interest and dividends	44	27
Market value gains	65	85
Plan withdrawals and expenses less contributions	(16)	(32)
Transfer of assets from Uniform Pension Plan[1]	178	-
Total increase	$293	$ 99
Plan asset rate of return	11.5%	13.5%

[1] *In prior years health sector employees contributed to the Uniform Pension Plan. This plan was amalgamated with the Civil Service Superannuation Fund.*

8.16 A performance review report prepared by consultants for the Master Trust reported annualized returns of 8.2 percent over a 10 year period to March 31, 2007. Returns for 2007 were 11.5 percent while returns reported for the four year period of 2003-2007 were 14.1 percent, substantially above the reported 10 year rate. Investment returns are a key variable in the magnitude of the pension obligation.

Tangible Capital Assets

8.17 The Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants is responsible for developing generally accepted accounting principles for the public sector. In September 2006, PSAB revised its tangible capital asset standard to disallow the netting of capital revenue against the cost of the related asset. This would require capital revenue to be deferred and amortized over the life of the asset on the same basis as the gross capital cost. The Province has not implemented this standard. Its current policy is to net revenues received for tangible capital assets against the asset cost. For the year ended March 31, 2007, capital

revenues of $11 million were netted against tangible capital assets. If the above changes were adopted retroactively, tangible capital assets and deferred capital revenue would have increased by $56.9 million at March 31, 2007. One of the concerns with netting capital revenues against capital assets is that the amortization of capital revenue does not get reflected on the income statement. The Province should adopt PSAB's requirements and record assets at gross cost.

8.18 The Province first began recognizing tangible capital assets in the Public Accounts in 2003-04. That year the Province recognized all tangible capital assets but included an exception with regard to the completeness of land as follows: *"Under the transitional Provisions of PSAB Section PS 3150 historical cost is still being gathered for certain land parcels. Adjustments to cost may be required when more information becomes available."* A similar note is disclosed in the 2006-07 schedule of tangible capital assets. Despite our continued recommendations to address this issue, the Province has not yet determined historical cost for all land parcels.

Recommendations

8.19 Tangible capital assets should be recorded at gross cost in accordance with PSAB standards.

8.20 Historical cost information should be obtained for a number of land parcels.

Consolidated Budget Estimates

8.21 PSAB Standards set as a basic requirement the inclusion of consolidated budget data with the Public Accounts. Consolidated Budget Estimates were prepared for the first time for the 2003-04 year. To facilitate meaningful comparisons, consolidated budgets need to be prepared and reported on the same basis as that used to prepare the Consolidated Financial Statements. The 2006-07 Budget Estimates were prepared on a consolidated basis but we noted differences in the format used in the Budget and the basis used in the 2006-07 Consolidated Financial Statements. The budget includes the net surplus of Crown corporations as revenue in the Budget summary.

Proper accounting in the Consolidated financial statements requires inclusion of each Consolidated entity's revenues and expenses rather than the net result. The absence of budgeted revenue and expense information of Crown corporations in budget documents limits the usefulness of budget information in assessing Crown Corporation operations and creates difficulties in comparing budget and financial statement information.

8.22 Although the Province now prepares Capital Estimates , these estimates are not prepared on the same basis as is used in recording capital assets for financial statement purposes. This results in assets being budgeted in operating budgets but recorded as capital assets in financial statements.

Recommendation

8.23 The budget format should be revised to follow the format of the consolidated financial statements of the Province.

Timely Financial Statements

8.24 We continue to stress the importance of releasing the Public Accounts on a timely basis. Financial statements are an important source of information for decision makers. Their usefulness diminishes as time elapses and increased efforts are needed to have financial statements available on a more timely basis. The following schedule provides the dates that the Consolidated Financial Statements were released for Canada and the Provinces for the last three years.

CONSOLIDATED (SUMMARY) FINANCIAL STATEMENTS RELEASE DATES YEAR ENDED MARCH 31

Jurisdiction	2007	2006	2005
Newfoundland and Labrador	Jan.25, 2008	Dec.13, 2006	Nov. 29, 2005
Nova Scotia	Aug. 09, 2007	Sept. 29, 2006	Sept. 28, 2005
Prince Edward Island	Jan.11, 2008	Jan. 31, 2007	Jan. 23, 2006
New Brunswick	Sept. 28, 2007	Aug. 16, 2006	Dec. 01, 2005
Quebec	Dec. 11, 2007	Oct. 24, 2006	Dec. 13, 2005
Ontario	Aug.17, 2007	Aug. 24, 2006	Sept. 27, 2005
Manitoba	Sept. 07, 2007	Sept. 05, 2006	Sept. 08, 2005
Saskatchewan	June 29, 2007	June 29, 2006	July 13, 2005
Alberta	June 21, 2007	June 26, 2006	June 29, 2005
British Columbia	July 11, 2007	July 17, 2006	June 29, 2005
Canada	Oct. 17, 2007	Sept. 28, 2006	Sept. 29, 2005

8.25 The Financial Administration Act requires each reporting entity to have audited financial statements completed within three months of year end and an annual report available to the public within six months of year end. There are very few reporting entities meeting the requirement for audited financial statements and in several cases there were substantial delays in the release of financial statements. When Volume II of the Public Accounts were released on February 7, 2008, an audited financial statement for Harness Racing PEI for the year ended January 31, 2007, and audited statements for PEI Housing Corporation and the Civil Service Superannuation Fund for the year ended March 31, 2007 had not yet been issued.

Recommendation

8.26 Financial Statements should be prepared and released on a timely basis.

Pension and Other Benefit Liabilities

8.27 A pension obligation arises when the pension entitlements owed to employees for services rendered exceed pension fund

assets. During the 2005-06 fiscal year, Provincial Treasury issued a note payable to the Teachers' Superannuation Fund of $160 million to provide additional funding of pension liabilities and in 2006-07 a similar note was issued to the Civil Service Superannuation fund in the amount of $52 million. The notes are payable over ten year periods with interest at 4.345 percent and 4.41 percent.

8.28 The following schedule shows the total pension liabilities, assets and unamortized expense for the past five years.

	Year Ended March 31 (Millions)				
	2007	2006	2005	2004	2003
Pension fund liabilities	$(1,391.2)	$(1,170.1)	$(1,048.8)	$(1,001.8)	$(955.6)
Pension fund assets	1,409.1	1,077.9	831.8	791.1	626.6
Unfunded pension liability	$ 17.9	$ (92.2)	$ (217.0)	$ (210.7)	$(329.0)
Unamortized adjustments	13.6	71.2	49.7	35.1	164.0
Net Pension Assets (Obligation)	$ 31.5	$ (21.0)	$ (167.3)	$ (175.6)	$(165.0)

8.29 The Province also records liabilities for retirement pay, workers compensation benefits, and death benefits. Note 7(c) of the Consolidated Financial Statements presents a breakdown of other benefit liabilities. The following schedule shows the combined liabilities, assets and unamortized expense relating to retirement pay, workers compensation and death benefits for the past five years.

	Year Ended March 31 (Millions)				
	2007	2006	2005	2004	2003
Other benefit liabilities	$(78.1)	$(72.9)	$(69.4)	$(66.7)	$(63.6)
Fund assets	1.3	1.3	1.2	1.2	1.2
Unfunded liability	$(76.8)	$(71.6)	$(68.2)	$(65.5)	$(62.4)
Unamortized adjustments	4.5	5.0	1.3	1.4	1.5
Net benefit obligation	$(72.3)	$(66.6)	$(66.9)	$(64.1)	$(60.9)

8.30 Unamortized adjustments noted above arise due to variances between assumptions applied in calculating actuarial estimates and actual results. These variances are initially recorded in the Province's statement of financial position and are amortized over future periods to expense on the Province's statement of operations.

8.31 Pensior .ligations are calculated on an actuarial basis every three years. During the interim period, liabilities are estimated by the Province by extrapolating the data from the most recent valuation. Actuarial valuations were carried out for the Teachers' Superannuation Fund and the Civil Service Superannuation Fund as of April 1, 2005 and for the MLA Pension Funds as of April 1, 2006. Actuarial valuations as of April 1, 2005 for Teachers' Superannuation Fund and Civil Service Superannuation Fund were completed January 16, 2007 and August 18, 2006. Assuming continuation of the three year cycle for valuations, the next valuations for Civil Service Superannuation and Teachers' Superannuation funds will be at April 1, 2008, and the MLA Pension Fund valuation will be at April 1, 2009.

8.32 The following values were reported by the actuary as of the valuation dates:

	(Millions)		
	TSF	**CSSF**	**MLA**
Date of Valuation	**Apr.1/05**	**Apr. 1/05**	**Apr.1/06**
Pension fund liabilities	$516.1	$575.8	$15.2
Pension fund assets	308.6	502.0	22.6
Unfunded pension liability	$207.5	$ 73.8	$ (7.4)

Federal Revenue

8.33 The Province has received significant amounts in federal funding related to a variety of Trust funds established by the Federal Government. The Province records deferred revenue when they initially receive these funds and allocates the funds to revenue over a period of years. We have concerns regarding the accounting treatment applied to the Trust receipts, based on the application of criteria in the PSAB Handbook and inconsistencies with accounting treatment applied to past federal transfers in earlier years where trust agreements were similar. Our research on the issue noted variations among other provincial jurisdictions in accounting treatment for receipts under the Trusts. The area of accounting for government transfers continues to be researched by PSAB.

8.34 As reported over the past several years, we continue to encounter problems with recording of revenues and accounts receivable from the federal government. Additional attention is required to ensure that amounts due from the federal government are accurately recorded.

8.35 Our audit work identified a $10.9 million increase to the amount receivable from the federal government for Provincial income tax revenues based on estimates available from the Federal Government as of late October 2007. The Office of the Comptroller adjusted for $9.9 million of the $10.9 million estimate adjustment, allowing for possible negative adjustments of $1 million in the Government of Canada's final income tax estimates for the 2006 tax year.

8.36 It appears additional revenue will be received from Disaster Assistance Claims relating to the March 2003 flooding in Kings and Queens counties, September 2003 Hurricane Juan, and the December 2004 Storm Surge. The Office of the Comptroller is reluctant to set up additional monies from the above disasters until claims are prepared. Based on our discussions, we suggested an adjustment for additional revenue of $901,000 for the March 2003 flooding in Queens and Kings counties. This adjustment was not made by the Office of the Comptroller. Regarding Hurricane Juan and the December 2004 Storm Surge, no monies have been received from the federal government as of December 2007. In order to receive advance or final payments for Disaster Assistance, supporting documentation from the Province needs to be completed and submitted to the federal government for its review. It is anticipated that additional revenues will be received when the supporting documentation is received and reviewed by the federal government.

8.37 The Public Accounts consolidated statement of financial position reports receivables from the federal government of $50.1 million as at March 31, 2007. The above balance includes $18.5 million relating to income tax. The remaining receivables totalled $31.6 million. The majority of these receivables will be reimbursed by the federal government on the basis of claims submitted by the Province. Delays in claims submissions result in slower cash flows and higher interest costs to the Province. The following table lists two programs

having substantial balances receivable as at March 31, 2007 which were still outstanding at December 31, 2007.

LARGER FEDERAL RECEIVABLES AS AT MARCH 31, 2007 STILL OUTSTANDING AS AT DECEMBER 31, 2007 ($000)

	Balance Receivable Mar. 31/07	Cash Receipts Apr.1/06 to Dec. 31/07	Still Outstanding Dec. 31/07	
Official Languages in Education	$ 8,046	$ -	$ 8,046	**Note 1**
Youth Justice Services	2,121	100	2,021	**Note 2**
	$10,167	$100	$10,067	

Note 1 FY2004-05: $1,081; FY2005-06: $2,467; FY2006-07:$4,498

Note 2 FY2006-07: $2,021

8.38 Discussions with departmental staff indicated that timely submission of claims by the Province is the major factor in delaying receipt of federal contributions.

Recommendations

8.39 Steps should be taken to ensure that all revenues and receivables from the federal government are identified and accurately recorded in the Province's financial system.

8.40 All revenues due from the federal government should be claimed and collected on a timely basis.

Guaranteed Debt

8.41 Over the past five years the Province has reported the following guaranteed debt balances on the Guaranteed Debt Schedule.

	Year Ended March 31 (Millions)				
	2007	2006	2005	2004	2003
Per Schedule	$170.5	$156.6	$137.4	$99.4	$82.6
IIDI Guaranteed Amounts*	-	-	-	-	13.4
	$170.5	$156.6	$137.4	$99.4	$96.0

**Not shown on the Guaranteed Debt Schedule prior to 2004.*

8.42 Guaranteed balances increased by $13.9 million over the previous year. For 2007, balances of $86.6 million (2006 - $74.8 million) relating to Island Investment Development Inc.'s Century 2000 Fund notes payable to the Minister of Citizenship and Immigration have been included in the Guaranteed Debt Schedule. This guarantee was not included on the Guaranteed Debt Schedule prior to the 2004 year but was disclosed in a financial statement note.

8.43 In addition to an increase of $11.8 million in balances guaranteed on IIDI's Century 2000 Fund notes payable, other significant changes in guaranteed balances include the addition of guarantees on PEI Energy Savings Bonds of $5.4 million, an increase of $1.8 million in student loan balances, and a decrease of $1.96 million in guarantees issued by PEI Business Development Inc.

8.44 The Province has included provisions for losses of $4.7 million on the loan guarantees and provisions totalling $11.3 million relating to other guarantees described in notes 5(j) and 6(b) of the Public Accounts. Schedule 21 of the Public Accounts shows a continuity schedule for the Provision for Doubtful Accounts.

8.45 In addition to the guaranteed debt balances noted above, notes 5(j), 6(b) and 6(c) to the Consolidated Financial Statements provide information on three additional guarantees. These guarantees have been disclosed in the Public Accounts notes but have not been included on the Guaranteed Debt Schedule in the Public Accounts. Note 5(j) relates to arrangements with Charlottetown Area Development Corporation in relation to costs of properties purchased from Canadian National Railway in 1996. Note 6(b) indicates the PEI Business Development Inc. has indemnified lease payments to a landlord on behalf of a private company. In the case of default by the tenant, the maximum amount indemnified is $108,000 per month, pursuant to the lease ending February 2025. Note 6(c) provides information on the guarantee to the Credit Union Deposit Insurance Corporation. Based on unaudited information, Prince Edward Island Credit Unions held insurable deposits of $470.8 million at September 30, 2006.

Cancellation or Discharge of Debt

8.46 Section 16 of the Audit Act requires the Auditor General to report the total amount of any claims, debts or monies due to the Province that have been discharged, cancelled, and released under Section 26 of the Financial Administration Act. In 2006-07, the amount cancelled or discharged under Section 26 totalled $7,058,756 and the amount written off under Section 26.1 was $7,592,613 as follows:

	Section 26(1)	Section 26.1(1)
Revenue Tax Act	$ -	$ 594,344
Environment Tax Act	-	2,430
Gasoline Tax Act	-	36,760
Real Property Tax Act	99,677	-
P.E.I. Business Development Inc.	6,959,079	6,959,079
	$7,058,756	$7,592,613

8.47 The amount discharged, cancelled and released or written off owed by third parties to the Province was $7,692,290. The amounts relating to PEI Business Development Inc. include a write off of debts owed by various businesses to the PEI Business Development Inc. in

the amount of $6,959,079 and a corresponding cancellation of amounts owed by PEI Business Development Inc. to the Province in the amount of $6,959,079.

Surplus (Deficit) of Crown Agencies and Corporations

8.48 Section 16 of the Audit Act requires the Auditor General to include information in the Annual Report on deficits of agencies not covered by appropriations in the year in which they have been incurred, and any surpluses not paid into the Operating Fund in the year in which they are earned. For information purposes we have also included the cumulative surplus or deficit for each entity.

AGENCY	Annual Surplus (Deficit) For the Year	Cumulative Surplus (Deficit)
Advisory Council on the Status of Women	$ (4,534)	$ (4,499)
Agricultural Insurance Corporation	1,431,858	15,143,339
Agricultural Research Investment Fund Inc.	(99,332)	134,101
Aquaculture and Fisheries Research Initiative Inc.	28,025	698,581
Business Development Inc.	(5,895)	1,598,587
Charlottetown Area Development Corporation	(7,519)	5,017,372
Eastern School District	3,893	3,893
Energy Corporation	1,012,563	4,246,391
French Language School Board	4,225	4,251
Grain Elevators Corporation	47,979	526,203
Human Rights Commission	(31,421)	(11,179)
Island Investment Development Inc.	274,060	497,911
Island Waste Management Corporation	129,503	(1,256,285)
Lending Agency	1,087,612	(359,126)
Museum and Heritage Foundation	13,879	598,949
Self-Insurance and Risk Management Fund	187,811	7,450,107
Special Projects Fund	(173,688)	734,271
Summerside Regional Development Corporation Ltd.	(168,339)	3,296,211
Tourism P.E.I.	(1,394,522)	(3,516,563)
Western School Board	6,129	6,501
Workers Compensation Board	12,940,235	11,946,743

Audited financial statements for Harness Racing PEI for the fiscal year ended of January 31, 2007 and audited financial statements for PEI Housing Corporation's fiscal year ended March 31, 2007 were not completed at the time the listing was prepared.

MANAGEMENT RESPONSE

8.49 These matters have been discussed with management.

9. APPROPRIATIONS

INTRODUCTION

9.1 Our audit of Appropriations for the year ended March 31, 2007 included a review of the systems and procedures for the administration of the Province's annual budget. This required an audit of appropriations approved by the Legislature and special warrants approved by Executive Council on the recommendation of Treasury Board.

9.2 The Appropriations Act provides the spending authority for government and is approved by the Legislative Assembly annually. Appropriations for 2006-07 were approved in the Appropriation Act 2006. If additional funds are required during the year, special warrants are issued by the Lieutenant Governor in Council.

9.3 In **SCHEDULE A** attached to this report, we provide a comparison of appropriations to actual expenditures in accordance with the classifications in the Appropriation Act 2006.

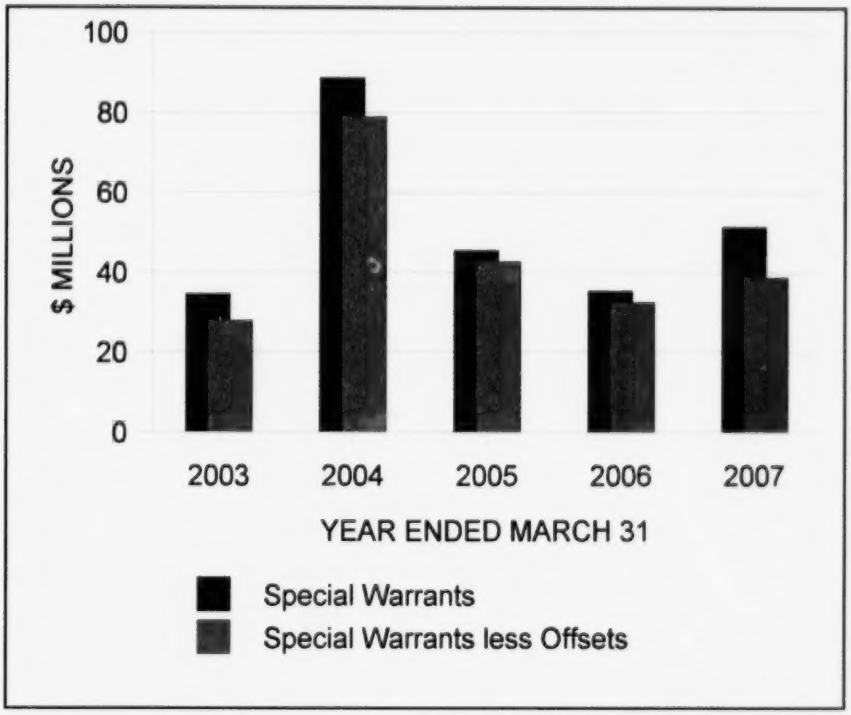
SPECIAL WARRANTS

9.4 Section 16(h) of the Audit Act requires the Auditor General to list in detail appropriations made by special warrant and the purpose of such appropriations. Details are shown in **SCHEDULE B** attached to this report.

9.5 For the 2006-07 fiscal year, special warrants totalled $51.3 million compared to $35.3 million in 2005-06. Of the special warrants issued for 2006-07, $12.6 million were offset by revenue. The result was a net increase in provincial appropriations of $38.7 million.

9.6 **Exhibit 9.1** indicates the gross special warrants and special warrants net of any offsets for the last five years.

EXHIBIT 9.1
SPECIAL WARRANTS



Delay in Issuing Special Warrants

9.7 Normally an expenditure should not be incurred unless it is provided for by an appropriation. At year end, adjustments may be necessary to ensure the financial statements present fairly the revenue and expense of the Province. When this occurs, it would be expected that a special warrant would be issued on a timely basis for any over expenditures.

9.8 During our audit for the year ending March 31, 2007, we noted three departments had over expenditures in their current accounts, and two departments had over expenditures in their capital accounts, with special warrants not issued until February 26, 2008. The over

expenditures related to year end adjustments made during the preparation of the Public Accounts.

Recommendation

9.9 Special warrants should be issued on a timely basis.

Capital Expenditures

9.10 In December 2005, an Appropriation Act (Capital Expenditures) 2006 was passed, which included appropriations for expenditures to be made for capital items. This was the first year a separate Capital Appropriation Act was introduced. It would be expected that capital and current expenditures would be budgeted in accordance with the tangible capital asset policy, and expended in accordance with the Appropriation Acts.

9.11 During our audit, we noted the following cases where the Appropriation Acts or Tangible Capital Asset Policy were not followed:

- One department purchased $924,000 in capital assets from their current accounts, which were budgeted in their capital accounts;
- Four departments had vehicles that were capitalized however, they were budgeted and expended in their current accounts; and
- Four departments had current expenditures which were originally recorded as capital expenditures.

9.12 We realize this is the first year for a capital Appropriation Act and expect differences such as the above will be addressed in future years.

Recommendations

9.13 Expenditures should be recorded in accordance with the Appropriation Acts.

9.14 The tangible capital asset policy should be taken into consideration when preparing the Appropriation Acts for current and capital expenditures.

MANAGEMENT RESPONSE

9.15 We have discussed our findings with management.

UPDATE ON PREVIOUS RECOMMENDATIONS

10. UPDATE ON PREVIOUS RECOMMENDATIONS

INTRODUCTION

10.1 Each special audit results in a report which is provided, through our annual report, to the Legislature. A fundamental component of special audit reports are recommendations which address observations or deficiencies noted during the audit. They are designed to contribute to the improvement of the management and administration of government operations and programs. It is management's prerogative to select the best course of action to address the problems identified. Our concern is that all recommendations are being addressed by management.

10.2 Annually we request information on the action taken to address outstanding recommendations. This information is normally requested through the Deputy Minister or Chief Executive Officer of the organization. At a minimum, we review each response for reasonableness. It is normally more cost effective to do detailed verification during the next scheduled audit.

10.3 Following is summary information provided to us on the status of recommendations from the special audits and examinations reported in the 2007 Annual Report of the Auditor General as well as outstanding recommendations from audits in the 2006, 2005, 2004 and 2003 Annual Reports.

PROPERTY TAXATION

10.4 Following are the recommendations resulting from our audit of Property Taxation as presented in the 2007 Annual Report of the Auditor General. The status of implementation of the recommendations is provided based on information received from management of the Taxation and Property Records Division of the Department of the Provincial Treasury.

Auditor General's Recommendation	Status/Management Response
In accordance with legislation, all persons who own real property should be notified of their property assessment.	When the 2007 Notice of Assessment and Summary of Property Charges were mailed out, properties which had not previously had notices printed were included.
The Division should reconcile the number of tax bills mailed in the annual billings to the number of property accounts in its database.	Reconciliation of annual bills will occur in May 2008.
To comply with legislation, the tax roll should be available for public inspection.	The tax roll is now available to the public.
The Division should send statements of outstanding taxes to taxpayers on a regular, timely basis.	Taxation and Property Records has returned to the practice of mailing property tax statements on overdue accounts to taxpayers twice yearly. Statements were mailed in January and September 2007.
The Division should take action to ensure that regular tax receivable reports are prepared and reviewed.	The Division is in the process of designing tax receivable reports.
The Division should send Notices of Liability to Tax Sale and Notices of Tax Sale in compliance with legislative requirements.	Taxation and Property Records has returned to the practice of sending Notices of Liability to Tax Sale and Notices of Tax Sale.

Auditor General's Recommendation	Status/Management Response
The Division should confirm, on a test basis, continued eligibility for tax credits.	Procedures have been identified which will routinely ensure eligibility for tax credit programs. Taxation and Property Records expects to implement these procedures by March 31, 2008.
Criteria should be developed and documented for flagging property transfers that require additional verification to substantiate compliance with the Real Property Transfer Tax Act.	A process which will flag properties needing follow up is under development.
To ensure the Real Property Transfer Tax legislation is being complied with, the Division should follow up on all transfers that are flagged for further review.	An analysis will be completed and, if necessary, the resources needed to ensure proper follow up of flagged properties will be requested.
The Division should document its policies regarding the use of property sales data to increase annual assessments, and the policy should provide guidance where the extent of sales data is limited.	A policy has been developed and is now included in the policy and procedures manual.
Approved policies on depreciation should be followed.	A policy related to the application of depreciation has been developed and will be included in the policy and procedures manual.
In accordance with policy, documentation should be maintained on the reasons for any allowances or reductions applied to property assessments.	Reasons for adjustments and allowances are now being recorded.
The policy manual should be revised to include practices on standard lot adjustments. Where significant adjustments are made, the reasons should be documented.	Taxation and Property Records are now documenting explanations for standard lot adjustments which are over the established adjustments for that area.

Auditor General's Recommendation	Status/Management Response
Division management should continue to take action to ensure all outstanding system components and reporting capabilities are developed and provided by the system developer.	A list of outstanding issues has been completed, and work will continue to resolve these issues.
Division management should review user access to ensure that access approved provides adequate segregation of incompatible functions and is limited to essential access related to job responsibilities.	The Division expects to complete a review and implement required changes by March 31, 2008.
Procedures should be implemented to ensure that all quality control exceptions are investigated and dealt with before the tax billings are processed.	This recommendation will be implemented.
The quality control process should include reports that flag decreases in assessments.	The process will be reviewed to ensure that quality control reports meet this recommendation.
The Division should reactivate the report for monitoring outstanding changes to properties. The reports should be reviewed on a regular basis to ensure all initiated changes are properly processed.	The Division will reactivate the report which identifies changes initiated but not completed.
The Division should reconcile partial billings to the accounts receivable postings and tax bills mailed.	The Division currently has the capability to reconcile partial billings to tax bills mailed. A process to reconcile partial billings to accounts receivable is being investigated.
The Property Tax Section should establish a disaster recovery plan which sets out the requirements to re-establish the property tax system in the event of a disaster. The disaster recovery plan should be tested periodically to ensure it is operational.	The disaster recovery plan will be developed and implemented.

PEI ENERGY CORPORATION

10.5 Following are the recommendations resulting from our examination of the PEI Energy Corporation as presented in the 2007 Annual Report of the Auditor General. The status of implementation of the recommendations is provided based on information received from management of the PEI Energy Corporation.

Auditor General's Recommendation	Status/Management Response
As required by Treasury Board Policy, major construction contracts should be submitted to Treasury Board at the request for proposal stage and the approval stage.	PEI Energy Corporation will seek direction from Treasury Board on approval of major construction projects.
Contractual arrangements should be documented, including at a minimum the terms and conditions of the services acquired and the agreed upon cost. The contract should be signed by both parties.	An effort will be made to ensure that these practices are followed.
Significant contractual arrangements should be open to a competitive process.	The Corporation will take steps to ensure that all significant contractual arrangements are open to a competitive process.
The Energy Corporation should ensure that power purchase agreements entered into are signed by both parties.	The Corporation will ensure in the future that power purchase agreements entered into are signed by both parties.
The Energy Corporation should ensure that the proceeds from the sale of the PEI Energy Savings Bonds are used as described to investors.	The Corporation will ensure that proceeds from the sale of the PEI Energy Bonds will be used as described to investors.

Auditor General's Recommendation	Status/Management Response
The Energy Corporation should develop a strategic plan that is linked to the renewable energy strategy and approved by the Board of Directors.	The Department of Environment, Energy and Forestry is in the process of developing a new energy strategy which will include a discussion on an appropriate role for the Corporation. The CEO of PEI Energy Corporation plans to seek direction from both the Board of Directors as well as Executive Council in the process.
The Board of Directors of the Energy Corporation should fulfill its responsibility to conduct the affairs of the Corporation and provide direction and accountability for major corporate initiatives.	When the CEO has received direction from government on the Corporation's future responsibilities, the CEO will make recommendations with respect to Board composition. It is the intention of the CEO to regularly seek direction from the Board on corporate initiatives.
The Energy Corporation should prepare an annual report which provides information on goals and results achieved.	Future annual reports will include information on goals and results achieved.
The Energy Corporation should prepare a business plan, linked to its strategic plan, that outlines planned activities and required resources.	The Corporation is awaiting feedback on its strategic direction. When this is received, a business plan will be developed which will serve to meet the objectives of the strategic plan.
A process should be put in place to review and prioritize potential renewable energy projects to ensure opportunities are not lost.	The Corporation will seek guidance from Executive Council on the role of the Corporation on initiatives that impact other departments and agencies.

WORKFORCE INCENTIVE PROGRAMS

10.6 Following are the recommendations resulting from our audit of Workforce Incentive Programs as presented in the 2007 Annual Report of the Auditor General. The status of implementation of the recommendations is provided based on information received from management of the PEI Public Service Commission.

Auditor General's Recommendation	Status/Management Response
The Public Service Commission should prepare a final report on the Workforce Renewal Program including the impact on the size of the public service, the direct costs and estimated savings. The report should be provided to Executive Council.	A final report will be prepared and will include the impact of the program on the size of the public service, the direct cost, and estimated savings. Every effort will be made to have this report completed by April 29, 2008.
The Annual Report of the Public Service Commission should include information on the Workforce Renewal Program showing the program objectives and the results achieved.	Summary information on the Workforce Renewal Program will be included in the 2006-07 Annual Report of the Public Service Commission.
Revisions to the terms and conditions of an early retirement program should be authorized at the level at which the original program was approved.	A sub-Committee of Deputy Ministers responded to some program issues as opposed to Executive Council.
To ensure all program requirements are adhered to, a process should be in place for the Public Service Commission to identify all retirees who return to the civil service after receiving retirement benefits under an early retirement program.	Should another program be offered in the future, consideration could be given to a special identifier for all program participants. This identifier would be tied to the employee's record.
The Public Service Commission should maintain a record of the full-time equivalent positions at each fiscal year end.	The Public Service Commission will maintain a record of full-time equivalent permanent positions on a yearly basis.

Auditor General's Recommendation	Status/Management Response
When a program is established by government with a defined duration and objective, a report should be provided to Executive Council at the conclusion of the program comparing the goals and results achieved.	Management advised there is no action required at this time.

PEI BUSINESS DEVELOPMENT INC. - LENDING ACTIVITIES

10.7 Following are the recommendations resulting from our examination of PEI Business Development Inc. - Lending Activities as presented in the 2007 Annual Report of the Auditor General. The status of implementation of the recommendations is provided based on information received from management of PEI Business Development Inc.

Auditor General's Recommendation	Status/Management Response
The draft policy manual for lending activities should be revised where necessary and approved.	Revisions are being finalized and will be presented for approval.
PEI Business Development Inc. should develop and implement a risk rating process to be used on its loan portfolio.	PEI Business Development Inc. has reviewed various processes but has not found any that add significant value to the procedures currently in practice. No further action is intended.
The decision making authority of the Lending Board within BDI should be clarified under the PEI Business Development Inc. Act Regulations.	The PEI Business Development Inc. Board of Directors will be asked to consider delegation of the authority to approve loans to the Lending Board.
An audit committee should be established for BDI.	The PEI Business Development Inc. Board of Directors appointed a three member audit committee. Subsequently, the terms of two of the members expired. An audit committee will be reappointed by the Board.
For each loan, a letter of offer should be in place setting out the terms and conditions of the financing as agreed to by the client.	PEI Business Development Inc. will ensure a letter of offer is in place for all loans.

Auditor General's Recommendation	Status/Management Response
A letter of offer should be issued and signed by the client before disbursement of the loan proceeds.	When the cash is urgently required and a letter of offer cannot be completed in time, PEI Business Development Inc. uses promissory notes and other legally binding security documents when the disbursement is made. PEI Business Development Inc. will ensure a letter of offer is put in place for all loans.
Security and contingent conditions should be satisfied prior to the disbursement of loan proceeds.	It is the practice of PEI Business Development Inc. to deal with these matters before disbursements are made.
PEI Business Development Inc. should ensure that the draw down of funds as outlined in the terms and conditions in the letter of offer are followed.	PEI Business Development Inc. agrees and management will ensure draw downs occur in accordance with the letter of offer.
Significant changes to loans should be approved at the same level of authority as the original loan.	PEI Business Development Inc. agrees and will obtain proper approvals when significant changes are made to loans.
In accordance with Treasury Board policy, where a client is in default to government, they should be added to the Central Default Registry.	PEI Business Development Inc. agrees and the clients which were noted to be in default during the audit have been placed on the Central Default Registry.
Conditions established by Executive Council should be included in the letter of offer for the guarantee.	PEI Business Development Inc. agrees and management will ensure this occurs.
Sufficient information should be obtained by lending officers to monitor compliance with terms and conditions of the guarantee.	Same as above.

Auditor General's Recommendation	Status/Management Response
In accordance with guidance provided by Citizenship and Immigration Canada, funds should not be advanced to provincial organizations from the PEI Century 2000 Fund Inc. to be used for private sector investment.	This practice has been stopped and clarification is being sought from Citizenship and Immigration Canada regarding acceptable use of the funds.
PEI Business Development Inc., IIDI and the Province should clarify the financial arrangements with immigrant nominees regarding good faith deposits and language proficiency deposits.	PEI Business Development Inc. agrees and agreements have been revised to remove previous areas of ambiguity.

STUDENT TRANSPORTATION - EASTERN SCHOOL DISTRICT

10.8 Following are the outstanding recommendations resulting from our examination of Student Transportation-Eastern School District as originally presented in the 2006 Annual Report of the Auditor General. The status of implementation of the recommendations is provided based on information received from management of the Eastern School District (ESD).

Auditor General's Recommendation	Status/Management Response
In accordance with Eastern School District policy, a standard performance appraisal process should be implemented for bus drivers.	The Eastern School District will work to further develop a bus driver performance evaluation process.
The Eastern School District should evaluate the cost/benefit of adding an inquiry function to the Transportation Management Information System.	The Eastern School District is currently undergoing a major redevelopment to their information system which will result in increased data management capabilities and usefulness.
The additional transportation costs incurred for transporting students out of zone for each school should be calculated and provided to the Board for its consideration.	In addition to the redevelopment of their information system, the Eastern School District is in the process of examining rezoning in the district with the intention of reducing the number of out-of-zone students.
The Department of Education should establish a long-term plan for school bus acquisition which considers the cost/benefit of maintenance versus replacement as well as the optimum size of the bus fleet.	The Eastern School District will prepare a fleet replacement submission for the review of the Department of Education.
Routine maintenance checks should be carried out as scheduled.	The Department of Transportation and Public Works is under contract to carry out scheduled routine and preventive maintenance on school buses.

10. Update on Previous Recommendations

Auditor General's Recommendation	Status/Management Response
Given the age of the bus fleet, the Eastern School District should continue periodic inspections of the structural integrity of its older buses to confirm their safety.	The Eastern School District is obtaining a report on the premature frame deterioration on buses greater than five years old. This report is being prepared by a structural engineer.

EAST PRINCE HEALTH - SENIORS SERVICES

10.9 Following are the outstanding recommendations resulting from the audit of East Prince Health-Seniors Services as presented in the Auditor General's 2006 Annual Report to the Legislative Assembly. The status of the implementation of these recommendations is presented, based on information received from management of the Department of Social Services and Seniors and the Department of Health.

Auditor General's Recommendation	Status/Management Response
A workload measurement standard should be developed which defines minimum levels of care for residents of nursing homes. The standard should be supported by a breakdown of the extent of care to be provided by nursing staff and other staff. Staffing budgets should be established to meet this standard.	The Department is currently researching the availability of such standards from external sources which could be adopted. Staff continue to pursue viable options to present to senior management.
The Department of Health should investigate the feasibility of computerization to reduce the duplicate manual entries required in staff scheduling.	This has been deferred until after the Peoplesoft payroll system has been fully implemented. Electronic staff schedules are part of the payroll project and this feature will be reviewed.
A detailed plan should be developed for the seniors units in each community based on a needs assessment and taking into consideration the current availability on reasonably priced private sector housing in the area. The plan for seniors housing should address whether the units should be put up for sale by tender or renovated and upgraded.	A two phase social housing strategy is currently ongoing: • Phase 1 was completed in February 2007 and identified a wide range of social housing gaps caused by shifting demographics, aging properties and changing client expectations. • Phase 2 is ongoing and involves looking at options to address the issues identified during Phase 1. Future housing investment needs will be determined as a result of Phase 2.

PUBLIC TRUSTEE

10.10 Following are the outstanding recommendations resulting from our audit of the Public Trustee as presented in the Auditor General's 2006 Annual Report. The status of implementation of these recommendations is presented based on information received from management of the Office of the Attorney General.

Auditor General's Recommendation	Status/Management Response
Additional effort should be made to contact beneficiaries of estates and where beneficiaries cannot be located the accounts over five years old should be closed.	The Office of the Attorney General agrees with the recommendation but will require additional time to implement the needed changes.
An investment policy should be documented for client trusts.	Same as above.

KPMG LLP FORENSIC AUDIT OF POLAR FOODS INTERNATIONAL INC.

10.11 Following is an outstanding recommendation resulting from the KPMG LLP Forensic Audit of Polar Foods International Inc., which was included in the 2006 Annual Report of the Auditor General. The status of implementation of the recommendation is provided based on information received from the Deputy Provincial Treasurer.

Auditor General's Recommendation	Status/Management Response
KPMG LLP recommends that this matter be resolved by requiring BDI to request the Receiver's disclosure in a statement or reconciliation for accounts receivable and inventory which would include a resolution of the disputed amounts, including written explanation providing reasons for the amounts not recovered.	An explanation regarding the disputed amounts has been obtained from the Receiver. Discussions are in progress to resolve the disputed amounts.

PROVINCIAL DRUG PROGRAMS

10.12 Following are the outstanding recommendations resulting from our examination of Provincial Drug Programs as presented in the 2005 Annual Report of the Auditor General. The status of implementation of the recommendations is provided based on information received from management of the Department of Social Services and Seniors.

Auditor General's Recommendation	Status/Management Response
The Department should monitor prescribing patterns to identify and follow up unusual practices. The Department should develop procedures to monitor and analyse drug use and take corrective action as necessary.	Several steps are being taken: • In 2008, a pharmacy advisory committee will review the prescribing and use of medication in PEI. This committee will also be a mechanism to obtain input from health stakeholders and the public and to review existing pharmaceutical programs with a view to modernization of provincial drug programs. • The Department will continue to participate in the Canadian Optimal Medication Prescribing and Utilization Service (COMPUS), a national initiative to review the prescribing and use of medications across Canada and develop strategies and tools that can be used to encourage the optimal prescribing and use of medications within individual provinces; and • A Drug Information System will be implemented April 1, 2008, where information can be used for monitoring prescribing practices and usage by patient, physicians, or pharmacists.
The Department should conduct rotational audits of pharmacies on an annual basis.	An action plan has been developed to complete rotational pharmacy audits and provide feedback to the private pharmacies that provide the service.

ISLAND WASTE MANAGEMENT CORPORATION

10.13 Following is an outstanding recommendation resulting from our examination of the Island Waste Management Corporation (IWMC) as presented in the 2005 Annual Report of the Auditor General. The status of implementation of this recommendation is provided based on information received from management of the Corporation.

Auditor General's Recommendation	Status/Management Response
The management of IWMC should prepare a strategic plan for Board approval.	Management of Island Waste Management Corporation has consulted with its Board regarding several strategic initiatives. Some of the major initiatives underway are: • balancing the financial deficit; • establishing a Waste Water Treatment Processing Facility; • releasing a Request for Proposals for the Operating Agreement for the Central Composting Facility; and • reviewing of the PEI Energy Contract.

CROWN AGENCIES - CONTROL AND ACCOUNTABILITY

10.14 Following are the outstanding recommendations resulting from our examination of Crown Agencies - Control and Accountability, as presented in the 2004 Annual Report of the Auditor General. The status of implementation of the recommendations is provided based on information received from management of the Provincial Treasury.

Auditor General's Recommendation	Status/Management Response
Each Crown agency board should develop and document guidelines on the desirable qualifications and attributes of prospective board members.	Agreed.
Each CEO should have a formal performance evaluation conducted by the board of directors on a periodic basis.	Agreed.
Boards of directors should fulfil the responsibilities as set out in the enabling legislation of the Crown agency as well as the general responsibilities of corporate directors.	Agreed.
An audit committee should be appointed for each Crown agency or, where not appointed due to size, the board of directors should carry out the responsibility.	Agreed.
Treasury Board should develop requirements for corporate governance applicable to all Crown agencies.	Treasury Board's role in developing requirements for corporate governance is currently being reviewed. There are a variety of practices in place in other provinces which are being explored.

Audit General's Recommendation	Status/Management Response
Executive Council should establish a corporate planning process for all Crown agencies which includes at least the following: • a corporate plan approved by the board of directors; • endorsement by the Minister responsible; • review and approval by Treasury Board and/or Executive Council; • release to the Legislative Assembly in conjunction with the budget approval process; and • linkage to the corporate annual report.	Agreed.
In addition to budgets by program area for school boards, the Budget Estimates should at a minimum provide supplementary information showing budgeted revenues and expenditures by school board.	Supplementary information for budget estimates will be considered.
The creation of subsidiaries should require formal approval by Executive Council and the governance and accountability structures should be clearly defined when the subsidiaries are created.	The governance and accountability structure of subsidiaries are the responsibility of the Crown Agency Board.
Treasury Board should establish standards for subsidiary corporations regarding reporting on program performance and financial results.	The reporting requirements for subsidiary corporations are the responsibility of the Crown Agency Board.
Annual reports of Crown agencies should be referred to a Standing Committee for review of agency performance.	This would have to be considered by the Legislative Assembly.

WATER MANAGEMENT DIVISION

10.15 Following is an outstanding recommendation resulting from our examination of the Water Management Division, as presented in the 2004 Annual Report of the Auditor General. The status of implementation is provided based on information received from management of the Department of Environment, Energy and Forestry.

Auditor General's Recommendation	Status/Management Response
The Strategic Plan should be updated and approved by the Department of Environment, Energy and Forestry.	The new departmental strategic plan has been completed and includes the Department's vision, and mission, as well as critical issues, goals, measures and strategies.

THE GOVERNANCE STRUCTURE OF THE CREDIT UNION DEPOSIT INSURANCE CORPORATION UNDER THE REGULATORY FRAMEWORK FOR CREDIT UNIONS

10.16 Following is the outstanding recommendation from our review of the Governance Structure of the Credit Union Deposit Insurance Corporation (CUDIC) under the Regulatory Framework for Credit Unions as presented in the 2003 Annual Report of the Auditor General. The status of implementation of the recommendation is provided based on information received from the Office of the Attorney General.

Auditor General's Recommendation	Status/Management Response
Each credit union should be subject to an annual external financial audit. The Credit Unions Act should be amended to require a credit union auditor to be a public accountant as defined under the Public Accounting and Auditing Act.	The Department agrees. The Credit Union Deposit Insurance Corporation is continuing its efforts to build support for annual external audits to be conducted on each credit union and hopes to see further progress in the coming year.

PUBLIC ACCOUNTS COMMITTEE

11. PUBLIC ACCOUNTS COMMITTEE

ROLE AND MANDATE

11.1 The Standing Committee on Public Accounts is a Committee of the Legislative Assembly. It provides an important link in the accountability process. Through Committee proceedings members of the Committee, as members of the Legislative Assembly, are given the opportunity to hold the administration accountable for the use of public funds and the stewardship of public assets.

11.2 The Committee currently consists of ten members and is chaired by a member of the Official Opposition. It is charged with matters concerning the Public Accounts of the Province and the Auditor General's Annual Report. The Committee holds public meetings and requires the Auditor General and other witnesses to appear and answer questions on matters raised in the Auditor General's Annual Report as well as other issues.

PROCEEDINGS AND RESULTS

11.3 During the year the Committee met to complete the review of my 2006 Annual Report and to review the 2007 Annual Report. Since the date of my last Annual Report up to March 1, 2008, I appeared before the Committee on three occasions and assisted in their deliberations by providing further information, explanation, and clarification on a number of issues.

11.4 In its April 11, 2007 report to the Legislative Assembly, the Committee endorsed all the recommendations and observations in the 2006 Annual Report of the Auditor General. The Committee requested that the implementation of the recommendations be reviewed and their status be presented in the next Annual Report.

11.5 Through its deliberations the Committee has an important role in contributing to improved accountability and effectiveness in government operations. I look forward to continuing to work with the Committee in fulfilling its mandate.

OFFICE OF THE AUDITOR GENERAL

12. OFFICE OF THE AUDITOR GENERAL

MANDATE AND MISSION

12.1 The Audit Act provides the mandate for the Office of the Auditor General. As a servant of the Legislative Assembly, the Auditor General is independent of government. Authority is given to carry out financial statement audits of the Public Accounts as well as any agency of government or Crown controlled or owned corporation.

12.2 Under the Act, the Auditor General also has a broad mandate to conduct any audit or examination he considers necessary to determine whether any agency of government is achieving its purposes and is doing so economically and efficiently and is complying with the applicable statutory requirements.

12.3 The mission of the Office of the Auditor General is as follows:

- to conduct independent audits and examinations that provide objective information, recommendations, and assurance to the Legislative Assembly; and
- to promote best practices in government operations.

RESPONSIBILITIES AND FUNCTIONS

12.4 The Audit Act sets out the responsibilities of the Auditor General. The Auditor General is required to report annually on the results of the audits and examinations conducted by the Office. The work of the Office can be categorized into two main types of assignments: financial audits, and special audits and examinations.

12.5 The primary responsibility of the Auditor General is the audit of the Public Accounts of the Province. The Auditor General is also named in legislation as the financial auditor for a number of Crown agencies.

12.6 The mandate allows the Auditor General to conduct any examination considered necessary to determine whether any agency of government is achieving its purpose, is doing so economically and efficiently and is complying with the applicable statutory provisions. Special examinations may include work on compliance with applicable

authorities on a government-wide basis. In addition, the Act allows for special assignments or investigations at the request of the Lieutenant Governor in Council.

12.7 The Office performs an important service to the Legislative Assembly. In some cases, where government reports information about its performance, we comment on its completeness and accuracy and thus provide credibility and add value to that information. In other circumstances, we audit government programs directly and report our findings to the Legislative Assembly and the public. The reports resulting from these assessments include recommendations and advice which can assist government in identifying opportunities for improvement in the management and control of public funds.

OPERATING PHILOSOPHY

Independence

12.8 The Auditor General is responsible to the Legislative Assembly, not government. The Office is positioned to offer impartial opinions and recommendations on government operations and management practices. The Audit Act establishes the legal framework for an independent audit office. The key components in building that independence include:

- the existence of a Legislative Audit Committee which reviews the Office's budget;
- the authority to carry out the audits and examinations which the Auditor General deems necessary;
- the right of access to records and information necessary to perform audit functions;
- the power to request and receive information or explanations required; and
- the requirement to report annually to the Legislative Assembly.

12.9 In addition, the independence of the Office is supported by our quality assurance policies and an office code of conduct which include, among other things, policy and guidance on ethics, impartiality, and potential conflict of interest situations.

Audit Planning

12.10 Each year an audit work plan is developed consistent with the audit priorities established by the Office and the resources available. The annual work plan includes a number of financial statement audits as well as special audits and examinations.

12.11 Special audits and examinations of government departments and Crown agencies are carried out on a cyclical basis. These audits can vary in scope from the entire organization to a specific division or program. Audits are sometimes carried out on a particular function on a government-wide basis.

12.12 Various factors are considered in establishing priorities for special audits and examinations. These include materiality of revenues/expenditures, results of previous audits, the date of the last audit, and the impact on the public. Other factors considered in planning each audit include; our audit mandate, expected resources required to complete the audit, the quality of the financial and management controls in place for the entity, complexity of the operations, and possible matters of significance that may arise from the audit.

Professional Standards

12.13 Generally accepted accounting principles for government are established through the recommendations of the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants (CICA). These recommendations are directed at the public sector and deal with numerous accounting issues. We rely on generally accepted accounting principles for the public sector in conducting our audits as well as other guidance provided by the CICA.

12.14 Our audits are conducted in accordance with generally accepted assurance standards. These standards relate to the professional qualifications of auditors, minimum examination requirements, and reporting responsibilities. They are designed to ensure that our audits are properly planned, conducted, and reported and that audit findings are based on well substantiated evidence.

12.15 The Office is subject to a periodic practice inspection carried out by the Institute of Chartered Accountants of Prince Edward Island. This process is designed to protect the public interest by ensuring the Office meets the standards required of the profession. The most recent practice inspection was completed in May 2005.

PERSONNEL, ADMINISTRATION AND AFFILIATIONS

Organization

12.16 The Office staff complement consists of two audit directors, twelve auditors and two administrative staff. The Office has received budget resources for a student auditor to fill one of the vacant positions. Two other auditor positions will remain vacant. With our limited staff we strive to provide audit coverage of significant areas of government on a cyclical basis.

12.17 Under the Audit Act, the Legislative Audit Committee, a standing Committee of the Legislative Assembly, is responsible for the administration of the Office of the Auditor General. The Committee consists of the Speaker of the Legislative Assembly, who is Chairperson; the Leader of the Opposition; and the Provincial Treasurer. On an annual basis, the Committee reviews the budget estimates of the Office.

12.18 For the year ended March 31, 2008 budgeted expenditures for the Office amounted to $1,524,300 as follows.

	2007-08 Budget
Administration	$ 28,800
Equipment	9,000
Materials, Supplies, and Services	9,300
Professional and Contract Services	64,500
Salaries	1,372,500
Travel and Training	27,800
Contribution - CCAF	12,400
Total	$1,524,300

Professional Affiliations

12.19 As an Office, we strive to keep current in all aspects of legislative and other audit practices, as well as new developments within the profession. The Office maintains a close association with a number of professional organizations, and experience and methodology is shared with a view to contributing to the ongoing development of legislative audit practices. Some of the key affiliations include the following:

- The Canadian Council of Legislative Auditors (CCOLA) - The meetings of the Council bring together legislative auditors from the federal government and the provinces and provide an opportunity for information exchange, discussion, development, and enhancement of legislative audit practices. Members of the Office serve on various CCOLA committees.

- The Public Sector Accounting Board - The Office provides input and cooperates with the Board in its efforts to improve and harmonize public sector accounting practices across Canada. The Board conducts research and issues recommendations on public sector accounting issues.

- The Canadian Institute of Chartered Accountants and the Institute of Chartered Accountants of Prince Edward Island - The Office maintains an important professional relationship with these organizations and provides input and receives information on developments in the profession.

- The CCAF - The Office has been a member and supporter of the CCAF since its inception in 1980. CCAF is a Canadian research and education foundation dedicated to building knowledge for meaningful accountability and effective governance, management, and audit.

OBJECTIVES AND ACCOMPLISHMENTS

12.20 In accordance with its mandate, the Office has established two broad goals:

(I) To promote improved accountability for, and management of, public funds.

(II) To continuously update our knowledge and skills within our field of practice and to work to the highest standard of our profession.

In support of these goals, the Office has developed a number of objectives. The following paragraphs provide information on each of these objectives and the accomplishments during the year.

(i) To prepare an Annual Report for the Legislative Assembly, as required under the Audit Act, on the results of the audits that have been carried out.

12.21 The Annual Report provides information on significant issues and recommendations resulting from our work. We expect that the Annual Report presented each year will act as a vehicle for positive change in the management and performance of the public sector. The deliberations and discussions on the Report that occur within the Legislative Assembly and by the Standing Committee on Public

Accounts provide the impetus to bring about the improvements recommended in the Report.

12.22 The 2007 Annual Report of the Auditor General was tabled in the Legislative Assembly on April 3, 2007. The Report was referred to the Public Accounts Committee and the Auditor General appeared before the Committee to discuss the Annual Report and provide additional information and explanations to the Committee.

(ii) To express opinions on the financial statements of the Public Accounts of the Province and other Crown agencies subject to audit.

12.23 An unqualified opinion was provided on the Public Accounts for the year ended March 31, 2007. We continue to work closely with the Office of the Comptroller in improving the financial statement presentation and disclosure. In addition to the Public Accounts, we conduct a number of financial statement audits of Crown Corporations, Pension and Trust Funds, and other Agencies. This process provides assurance to the taxpayers, through the Legislative Assembly, on the fairness of information reported by government.

(iii) To perform selected special audits and examinations to determine whether departments and agencies are being managed with due regard for economy and efficiency and are in compliance with applicable statutory provisions.

12.24 The Office has a limited amount of resources to carry out its work. Many of the financial statement audits which we perform are required under legislation. The extent of special audit and examination work that we can undertake is determined by the resources available after the financial audit work has been assigned.

12.25 Our special audits and examinations provide information and assurance on the management of public resources in a number of areas. We provide advice and make recommendations to improve management controls and practices where problems are identified.

(iv) To perform other investigations as may be required from time to time.

Occasionally we are asked to investigate potential weaknesses in control or to follow up on specific observations from our report. This report includes a special examination on the Small Claims Process which was requested by the Public Accounts Committee.

12.26 It has also been our practice to follow up on outstanding recommendations and provide information in our Annual Report on the status of implementation of the recommendations arising from our audits. This is part of the legislative audit function which provides important feedback to the Public Accounts Committee, and assists in its role of holding government accountable.

(v) To maintain technical competence in an evolving accounting and auditing environment.

(vi) To remain aware of and provide input to the development of public sector accounting standards.

(vii) To build leadership within the Office by providing professional development and training opportunities for staff.

12.27 Our Office maintains an affiliation with the Canadian Institute of Chartered Accountants which helps us to keep up to date on emerging accounting and auditing issues. Standards are promulgated by the Public Sector Accounting Board and the Assurance Standards Board. We regularly participate in this process by providing comments during the discussion stages of the development of government accounting standards. In addition, we maintain professional affiliations with the Canadian Council of Legislative Auditors and the CCAF. This participation allows us to share knowledge and experience as well as receive information on newly developed methodology.

12.28 Audit staff within the Office have professional accounting designations. We strive to provide training and professional

development opportunities to staff. Individual staff members attend various professional courses, conferences, seminars, and meetings.

12.29 For 2006 and subsequent years, the Institute of Chartered Accountants of PEI requires members to take a minimum of 20 hours of professional development per year and not less than 120 hours in a three year period.

SCHEDULES

OPERATING FUND APPROPRIATIONS

ORDINARY	APPROPRIATION ACT 2006	SPECIAL WARRANTS	TRANSFERS	TOTAL BUDGET	APPROPRIATION ACT EXPENDITURES 2006/2007		OPERATING FUND EXPENDITURES 2006/2007
AGRICULTURE, FISHERIES AND AQUACULTURE	$ 27,317,800	$ 4,229,300	$ -	$ 31,547,100	$ 31,547,003	Note	$ 31,444,848
OFFICE OF THE ATTORNEY GENERAL	33,612,500	332,700	-	33,945,200	33,554,339		33,554,339
AUDITOR GENERAL	1,446,800	-	-	1,446,800	1,338,069		1,338,069
COMMUNITY AND CULTURAL AFFAIRS	32,628,500	4,539,300	-	37,167,800	34,069,695	Note	34,068,795
DEVELOPMENT AND TECHNOLOGY	4,788,100	2,033,700	-	6,821,800	6,821,529		6,821,529
PEI BUSINESS DEVELOPMENT INC.	22,174,100	17,562,500	-	39,736,600	39,736,600	Note	39,736,707
EMPLOYMENT DEVELOPMENT AGENCY	3,580,200	96,700	-	3,676,900	3,676,894		3,676,894
EDUCATION	230,423,500	-	1,050,600	231,474,100	229,705,245		229,705,245
ISLAND REGULATORY AND APPEALS COMMISSION	1,200,000	-	-	1,200,000	1,200,000		1,200,000
ENVIRONMENT, ENERGY AND FORESTRY	12,218,600	-	-	12,218,600	11,849,054	Note	11,802,791
PEI ENERGY CORPORATION	398,500	468,000	-	866,500	398,500		398,500
EXECUTIVE COUNCIL	3,030,200	202,300	-	3,232,500	2,944,396		2,944,396
HEALTH	343,850,200	5,597,100	4,255,000	353,702,300	353,657,263		353,657,263
SOCIAL SERVICES AND SENIORS	115,899,200	368,600	287,230	116,555,030	110,526,316	Note	111,181,242
LEGISLATIVE ASSEMBLY	3,624,200	62,300	-	3,686,500	3,480,347		3,480,347
PROVINCIAL TREASURY	32,797,600	-	-	32,797,600	27,050,545	Note	27,100,130
GENERAL GOVERNMENT	15,570,900	-	(5,592,830)	9,978,070	4,421,973		4,421,973
TECHNOLOGY ASSET MANAGEMENT	2,595,800	-	-	2,595,800	2,291,891		2,291,891
PEI LENDING AGENCY	1,400,500	3,400,000	-	4,800,500	4,800,500		4,800,500
COUNCIL OF ATLANTIC PREMIERS	123,500	-	-	123,500	123,500		123,500

See Note on page 3

OPERATING FUND APPROPRIATIONS

ORDINARY	APPROPRIATION ACT 2006	SPECIAL WARRANTS	TRANSFERS	TOTAL BUDGET	APPROPRIATION ACT EXPENDITURES 2006/2007		OPERATING FUND EXPENDITURES 2006/2007
PEI PUBLIC SERVICE COMMISSION	$ 4,543,700	$ -	$ -	$ 4,543,700	$ 4,543,793		$ 4,543,793
EMPLOYEE BENEFITS	22,400,700	869,500	-	23,270,200	21,516,237		21,516,237
TOURISM PEI	19,537,900	1,548,300	-	21,086,200	14,895,331		14,895,331
TRANSPORTATION AND PUBLIC WORKS	81,418,600	916,500	-	82,335,100	78,909,315	Note	79,320,382
INTERMINISTERIAL WOMEN'S SECRETARIAT	308,000	-	-	308,000	295,758		295,758
INTEREST CHARGES ON DEBT	118,276,200	-	-	118,276,200	116,705,419		116,705,419
CAPITAL TRANSFER	-	-	-	-	-	Note	7,848,994
AMORTIZATION OF TANGIBLE CAPITAL ASSETS	-	-	-	-	-	Note	27,191,312
TOTAL ORDINARY	**$1,135,165,800**	**$42,226,800**	**$ -**	**$1,177,392,600**	**$1,140,059,512**		**$1,176,066,185**
CAPITAL							
EDUCATION	9,364,300	911,000	-	10,275,300	10,259,595	Note	-
ENVIRONMENT, ENERGY AND FORESTRY	448,000	-	-	448,000	379,602	Note	-
GENERAL GOVERNMENT	3,000,000	-	-	3,000,000	-		-
HEALTH	4,282,000	6,294,600	-	10,576,600	10,563,315	Note	-
PROVINCIAL TREASURY	2,214,200	-	-	2,214,200	844,314	Note	-
PEI PUBLIC SERVICE COMMISSION	1,057,200	-	-	1,057,200	1,046,319	Note	-
SOCIAL SERVICES AND SENIORS	666,000	-	-	666,000	663,191	Note	-
TRANSPORTATION AND PUBLIC WORKS	33,075,000	1,855,000	-	34,930,000	34,920,416	Note	-
TOURISM PEI	175,000	-	-	175,000	169,712	Note	-
TOTAL CAPITAL	**$ 54,281,700**	**$ 9,060,600**	**$ -**	**$ 63,342,300**	**$ 58,846,464**		**$ -**
GRAND TOTAL	**$1,189,447,500**	**$51,287,400**	**$ -**	**$1,240,734,900**	**$1,198,905,976**		**$1,176,066,185**

See Note on page 3

OPERATING FUND
APPROPRIATIONS

Note: Appropriations and expenditures are presented in accordance with the classifications in the Appropriation Act 2006. During the year, expenditures were recorded on the same basis as the Appropriation Act 2006. This differs from the format used in the Operating Fund, in that amortization of tangible capital assets are recorded as expenses and tangible capital assets are capitalized in the Operating Fund.

	Per Appropriation Act	Revenues/ Expenses Transferred	Capital Asset Adjustments	Per Operating Fund
Ordinary Expenditures				
Agriculture, Fisheries and Aquaculture	$31,547,003	$ -	$ (102,155)	$ 31,444,848
Community and Cultural Affairs	34,069,695	-	(900)	34,068,795
PEI Business Development Inc.	39,736,600	107	-	39,736,707
Environment, Energy and Forestry	11,849,054	37,706	(83,969)	11,802,791
Social Services and Seniors	110,526,316	663,191	(8,265)	111,181,242
Provincial Treasury	27,050,545	49,585	-	27,100,130
Transportation and Public Works	78,909,315	1,856,577	(1,445,510)	79,320,382
Capital Transfer	-	7,848,994	-	7,848,994
Amortization of Tangible Capital Assets	-	-	27,191,312	27,191,312
		$ 10,456,160	$ 25,550,513	
Capital Expenditures				
Education	$10,259,595	$(10,259,595)	$ -	$ -
Environment, Energy and Forestry	379,602	(37,706)	(341,896)	-
Health	10,563,315	-	(10,563,315)	-
Provincial Treasury	844,314	(49,585)	(794,729)	-
PEI Public Service Commission	1,046,319	-	(1,046,319)	-
Social Services and Seniors	663,191	(663,191)	-	-
Transportation and Public Works	34,920,416	(1,856,684)	(33,063,732)	-
Tourism	169,712	-	(169,712)	-
		$(12,866,761)	$(45,979,703)	

ORDER -IN-COUNCIL	LIST OF SPECIAL WARRANTS		
	AGRICULTURE, FISHERIES AND AQUACULTURE		
EC 2006-435	AGRICULTURE POLICY AND REGULATORY DIVISION		
	Grants		$ 515,000
	To fund loan loss provision for the hog industry.		
EC 2006-624	FISHERIES AND AQUACULTURE		
	Grants		160,000
	For a Federal/Provincial Development Fund to address the impact of Tunicate infestations on the cultured mussel industry. The expenditure was to be offset 100 percent by revenue from the Federal Government.		
EC 2008-121	AGRICULTURE POLICY AND REGULATORY DIVISION		
	Grants		3,554,300
	To fund loan loss provision for the hog industry.		
	Total		$ 4,229,300
	OFFICE OF THE ATTORNEY GENERAL		
EC 2007-199	LEGAL AND JUDICIAL SERVICES		
	Professional and Contract Services	$ 236,800	
	Salaries	40,600	
	PROVINCIAL POLICING SERVICES		
	Professional and Contract Services	55,300	$ 332,700
	To fund additional costs identified in the Third Quarter Forecast. The expenditure was to be partially offset by $55,300 in revenue from the Town of Cornwall under the terms of the Extended Policing Agreement.		
	COMMUNITY AND CULTURAL AFFAIRS		
EC 2007-196	CULTURE AND HERITAGE		
	Grants - Carrefour Development Program	$ 210,000	

ORDER-IN-COUNCIL	LIST OF SPECIAL WARRANTS		
	PLANNING AND INSPECTION SERVICES		
	Materials, Supplies & Services	$ 101,000	$ 311,000
	To support expenditures under the Canada/Prince Edward Island Agreement on French Language Services. The expenditure was to be partially offset by $216,500 in federal revenue.		
EC 2007-200	INFRASTRUCTURE		
	Grants - Infrastructure Program		$ 1,726,600
	To fund infrastructure program expenditures in the area of public transit. The expenditure was to be offset 100 percent by Federal Revenue.		
EC 2007-202	RECREATION AND SPORT		
	Grants - 2009 Canada Games Host Society	$ 2,360,100	
	Grants - "Best Ever" Program	141,600	2,501,700
	To fund provincial commitments associated with the 2009 Canada Summer Games and "Best Ever Program."		
	Total		$ 4,539,300
	DEVELOPMENT AND TECHNOLOGY		
EC 2007-565	COMMUNITY AND LABOUR MARKET DEVELOPMENT		
	Grants - Community Development	$ 157,800	
	Grants - Strategic Opportunities	177,900	
	DEPARTMENTAL MANAGEMENT		
	Grants	198,000	$ 533,700
	To fund additional costs related to Community Development Programs and operating expenditures associated with the former CN Lands.		
EC 2008-122	FINANCE AND ADMINISTRATION		
	Grants		1,500,000
	To fund loss provision for former CN lands.		
	Total		$ 2,033,700

ORDER-IN-COUNCIL	LIST OF SPECIAL WARRANTS		
	PEI BUSINESS DEVELOPMENT INC		
EC 2007-195	PROGRAMS		
	Grants - Tax Incentives/Development Assistance		$ 2,996,500
	To cover refunding of Provincial Taxes in excess of budget in accordance with the Slemon Park/Aerospace Tenant's Tax Contracts.		
EC 2007-566	PROGRAMS		
	Grants - Tax Incentives	$ 613,700	
	Grants - Progressive Tax Credits	1,307,700	
	Grants - Strategic Infrastructure Assistance	794,600	
	CORPORATE SERVICES		
	Debt - Provision for Credit Losses and Guarantee Payments	$11,850,000	$14,566,000
	To cover funding of Progressive Tax Credits and Slemon Park/Aerospace Tax Contracts in place. To increase the provision for credit losses and guarantee payments.		
	Total		$17,562,500
	EMPLOYMENT DEVELOPMENT AGENCY		
EC 2007-493	JOBS FOR YOUTH		
	Grants - Public Sector		$ 96,700
	To fund additional costs related to Jobs for Youth - Employment Connection.		
	PEI ENERGY CORPORATION		
EC 2006-631	OPERATIONS		
	Grants		$ 450,000
	To fund the completion of the Wind Energy Institute. The expenditure was to be offset 100 percent by revenue from Natural Resources Canada.		

ORDER-IN-COUNCIL	LIST OF SPECIAL WARRANTS		
EC 2007-194	OPERATIONS		
	Professional and Contract Services		$ 18,000
	To cover the costs associated with measuring wind data. The expenditure was to be offset 100 percent by revenue from the sale of data.		
	Total		$ 468,000
	EXECUTIVE COUNCIL		
EC 2006-632	ACADIAN AND FRANCOPHONE AFFAIRS		
	Materials, Supplies and Services	$ 10,000	
	Professional and Contract Services	163,400	
	Salaries	19,900	
	Travel and Training	9,000	$ 202,300
	To implement the French Language Services Act and develop an interprovincial website to promote best practices in the provision of French language services. The expenditure was to be offset 100 percent by revenue from the governments of Canada and New Brunswick.		
	HEALTH		
EC 2007-157	MEDICAL PROGRAMS		
	Grants - Ground Ambulance Program		$ 245,300
	To fund costs for the Ground Ambulance Program.		
EC 2008-123	QUEEN ELIZABETH HOSPITAL		
	Salaries		5,351,800
	To increase health appropriations to the gross amount. The expenditure was fully offset by a corresponding increase in revenues to the gross amounts.		
	Total		$ 5,597,100

ORDER-IN-COUNCIL	LIST OF SPECIAL WARRANTS		
	SOCIAL SERVICES AND SENIORS		
EC 2006-438	CHILDREN AND YOUTH SERVICES		
	Grants		$ 10,000
	Additional grants for children at risk to stay in school. The expenditure was to be offset 100 percent by revenue from the Children's Aid Foundation.		
EC 2007-198	SOCIAL SUPPORTS		
	Administration	19,100	
	Salaries	120,100	
	Travel and training	3,700	142,900
	To cover costs relating to the Employment Pathways Project. The expenditure was to be offset 100 percent by Federal Revenue.		
EC 2007-201	SOCIAL SUPPORTS		
	Administration	26,500	
	Wages	108,200	
	Travel and training	5,500	140,200
	To cover costs relating to the Reach West Project. The expenditure was to be offset 100 percent by Federal Revenue.		
EC 2007-462	SOCIAL SUPPORTS		
	Administration	$ 10,800	
	Salaries	64,500	
	Travel and Training	200	$ 75,500
	To cover costs relating to the Employment Initiative Project. The expenditure was to be offset 100 percent by Federal Revenue.		
	Total		$ 368,600
	LEGISLATIVE ASSEMBLY		
EC 2007-193	ELECTIONS		
	Administration	$ 1,500	
	Professional and Contract Services	50,600	
	Salaries	10,200	$ 62,300
	To cover the increased costs of Elections PEI.		

ORDER-IN-COUNCIL	LIST OF SPECIAL WARRANTS		
	PEI LENDING AGENCY		
EC 2007-435	DIVISION MANAGEMENT		
	Operations - Crown corporations		$ 3,400,000
	To increase the provision for loan losses.		
	EMPLOYEE BENEFITS		
EC 2007-156	EMPLOYEES' FUTURE BENEFITS		
	Salaries		$ 869,500
	To compensate the Education Sector Pension Plan for the financial impact of the 2005 Workforce Adjustment Program.		
	TOURISM PEI		
EC 2006-540	TOURISM DEVELOPMENT		
	Grants - French Services		$ 45,000
	To fund an increase in French Language Services. The expenditure was to be offset 100 percent by revenue under the Canada/PEI Agreement on French Language Services.		
EC 2006-503	TOURISM MARKETING		
	Grants - Tourism Advisory Council		$ 105,900
	To fund a fall tourism marketing campaign in the Maritime Provinces and nearby US markets.		
EC 2007-135	TOURISM DEVELOPMENT		
	Grants - Tourism Product Development	$ 789,900	
	Grants - French Services	40,500	
	Grants - Miscellaneous	37,400	
	Professional and Contract Services	34,600	
	PROVINCIAL PARKS		
	Materials, Supplies and Services	28,600	
	Salaries	203,600	
	Professional and Contract Services	20,000	

ORDER-IN-COUNCIL	LIST OF SPECIAL WARRANTS		
	GOLF LINKS PEI INC.		
	Grants	$ 122,300	$ 1,276,900
	To fund over expenditures identified in the 2006-07 third Quarter Forecast. The expenditure was to be partially offset by $40,500 in revenue under the Canada/PEI Agreement on the Promotion of Official Languages.		
EC 2007-197	TOURISM DEVELOPMENT		
	Grants - French Services		120,500
	To fund an increase in French Language Services. The expenditure was to be offset 100 percent by revenue under the Canada/PEI Agreement on French Language Services.		
	Total		$ 1,548,300
	TRANSPORTATION AND PUBLIC WORKS		
EC 2006-439	CAPITAL PROJECT DIVISION		
	Materials, Supplies and Services		$ 166,500
	To fund replacement of tourism directional signage.		
EC 2006-469	PROVINCIAL HIGHWAY MAINTENANCE OPERATIONS		
	Professional and Contract Services		750,000
	To supplement the Provincial Recap Program.		
	Total		$ 916,500
	EDUCATION - CAPITAL		
EC 2007-203	CAPITAL EXPENDITURE - SCHOOL CONSTRUCTION		
	Capital - Buildings - new	$ 804,900	
	Capital - Buildings Restoration/Renovation	106,100	$ 911,000
	To fund construction costs which have progressed faster than original budgeted cash flows. The expenditure was to be partially offset by a $324,000 sequestration from operating expenditures in 2006-07.		

ORDER-IN-COUNCIL	LIST OF SPECIAL WARRANTS	
	HEALTH - CAPITAL	
EC 2008-124	CAPITAL PROJECTS	
	Capital - Computer Equipment	$ 6,294,600
	To fund expenditures which were greater than budgeted for the Cerner Project. The expenditure was to be partially offset by $3,893,700 in federal revenue.	
	TRANSPORTATION AND PUBLIC WORKS - CAPITAL	
EC 2006-468	HIGHWAYS	
	Capital - Highway Reconstruction	$ 1,000,000
	To fund highway reconstruction.	
EC 2008-125	EQUIPMENT AND MACHINERY	
	Capital - Highway Equipment	855,000
	To cover funding for tandem trucks and plow gear.	
	Total	$ 1,855,000